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**AN INVESTIGATION INTO THE PERFORMANCE REPORTING  
PRACTICES AND ACCOUNTABILITY OF MALAYSIAN LOCAL  
AUTHORITIES**

**A Thesis Presented in Partial Fulfilment of the Requirements for the Degree of  
Doctor of Philosophy  
in  
Accountancy  
at Massey University, (Wellington), New Zealand**

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**2010**

## ABSTRACT

Within the context of New Public Management (NPM), the research aims to investigate the practices of annual reporting of performance-related information and accountability of Malaysian local authorities and whether such practices meet the local authorities' stakeholders' expectations of information necessary for assessing and monitoring the performance of local authorities. The aim is to make recommendations about the future direction of external performance reporting of Malaysian local authorities. To achieve this and associated aims, the research addresses the following research questions: (1) What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities? (2) What type of information do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities? (3) How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders? (4) What type of information items do expert stakeholders agree is necessary for assessing and monitoring the performance of local authorities and what is the importance of such items for disclosure? (5) How can the information and its importance for disclosure, as agreed by the experts, be organised as a disclosure index for assessing the extent and quality of information disclosure? (6) What is the extent and quality of disclosure of information within the annual reports of Malaysian local authorities? (7) Does the information being disclosed in the annual reports meet the expectations of stakeholders? (8) To what extent is accountability being discharged through annual performance reporting of local authorities?

The research employs a questionnaire survey, a Delphi exercise (a means of seeking consensus of expert opinions), and a content analysis of annual reports. Both descriptive and analytical approaches are employed to support the analysis of the results. The findings of the research indicate that despite a strong interest amongst stakeholders for greater accountability of Malaysian local authorities, a standard definition and scope of accountability has not emerged. The need to give an account has been recognised by the stakeholders with an emphasis on performance reporting within the context of NPM. The findings also show that the extent and quality of annual reports of Malaysian local authorities is relatively low in that the information disclosed lacks detailed information and is insufficient for the assessment and monitoring of the performance of such authorities. Further, the findings suggest the discharge of accountability by local authorities through external annual performance reporting should and could be improved.

The findings contribute to our understanding of accountability as interpreted by key stakeholders of local authorities located within the context of a developing country. In addition, the findings contribute to the body of literature that documents aspects of NPM, namely performance reporting, accountability for performance and public accountability. With regards to Malaysia specifically, the findings could potentially assist public sector administrators and will be of significance to policy makers interested in improving the performance management of Malaysian public entities, particularly that of local authorities.

## ACKNOWLEDGEMENTS

I would like to take this opportunity to express my gratitude to many people I have encountered in the course of undertaking this research and completing this thesis.

First and foremost, I am highly indebted to my supervisors Professor Jillian Hooks and Associate Professor Stuart Tooley, whose knowledge, experience and determination deserve a substantial credit in my work. I must thank them for their continuous supervisory guidance, support and encouragement throughout the course of this research.

My gratitude goes to all the questionnaire participants, the Delphi panel members, the management and staff of the local authorities involved, for their cooperation and participation in the research.

I am obliged to the Universiti Kebangsaan Malaysia (UKM) and the Government of Malaysia, particularly, the Ministry of Higher Education for granting study leave and financial support. The support from the Faculty of Economics and Business including the School of Accountancy of the UKM is kindly acknowledged.

I am always grateful for the support and guidance of Professor Paul Dunmore (Professor of Accounting Research of the School of Accountancy, Massey University), especially during the initial stage of my PhD journey and the development of the thesis. A special thank you goes to members of the School of Accountancy, Massey University for their friendship and moral support. My thanks are also due to Nikki Batten for her administrative support and Hana Craig for her help in proofreading.

Last but not least, my heartfelt gratitude to my parents who continuously encourage and inspire me with their love and prayers. Also my very special thanks to my brother and sisters and their families, as well as to my best friends for their unlimited support and care. This thesis is dedicated to these important people in my life.

*Norida  
Wellington, 2009*



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## LIST OF ABBREVIATIONS

AS	Actual Score
CIPFA	Chartered Institute of Public Finance and Accountancy
FRS	Financial Reporting Standards
KPI	Key Performance Indicators
LA	Local Authority
MBS	Modified Budgeting System
MLAs	Malaysian Local Authorities
MPS	Maximum Possible Score
MRT	Middle-Range Thinking
NPM	New Public Management
TC	Treasury Circular
WI	Weighting for Importance
WS	Weighted Score

# CHAPTER 1

## INTRODUCTION

### 1.1 INTRODUCTION

Public sectors around the world are frequently criticised for inefficiency, poor performance and issues relating to accountability. These days, governments are under increasing pressure to be “more productive and effective – to achieve not only the greatest degree of economy and efficiency possible but also to secure desired outcomes in respect to economic and social development” (Aucoin & Heintzman, 2000, p.45). This pressure is caused by greater demands for demonstrated performance with respect to results. In Malaysia, it has been made clear that the public is interested not only in accountability for financial management of the public sector but also in accountability for its operational performance. The Malaysian public is demanding more answerability from public sector organisations, as seen in the number of complaints made by the public through the Public Complaints Bureau (Siddiquee, 2006) and increasingly critical reports produced by local media (for example, *Berita Harian*, 2008; *Utusan Malaysia*, 2008; *The Sun*, 2006).

In response to these concerns, governments of both developed and developing countries, including Malaysia, have undertaken administrative reform and reorganisation. Although aspects of the reform agenda have varied among individual countries, it is widely acknowledged that the broad thrust of public management reforms is framed within New Public Management (NPM) (see for example Guthrie, Olson & Humphrey, 1999; Lapsley, 1999). NPM has a clear focus on efforts or initiatives designed to achieve accountability through results (Guthrie et al., 1999; Hood, 1995; Parker & Gould, 1999). The emphasis of NPM on results and performance has led to changes in management of, and reporting on, outputs and outcomes which, it is argued, will lead to more efficient and effective public administration (Aucoin & Heintzman, 2000). The accountability aspect of NPM is based on calls for greater accountability, that is, for public sector managers to be held accountable for performance and for improved public accountability. Such accountability is discharged through the reporting of performance information to a broad group of stakeholders.

Within the context of one specific part of the Malaysian public sector (local authorities), this research investigates the understanding of local authority stakeholders of the concept of accountability with regards to local authorities, the scope, nature and importance of disclosure of information expected by the stakeholders and the discharge of accountability through annual performance reporting. This is achieved by exploring the perceptions of stakeholders of Malaysian local authorities, examining the reporting of information necessary for assessing and monitoring the performance of local authorities and identifying whether the disclosure expectations that stakeholders have for the discharge of accountability obligations are being met.

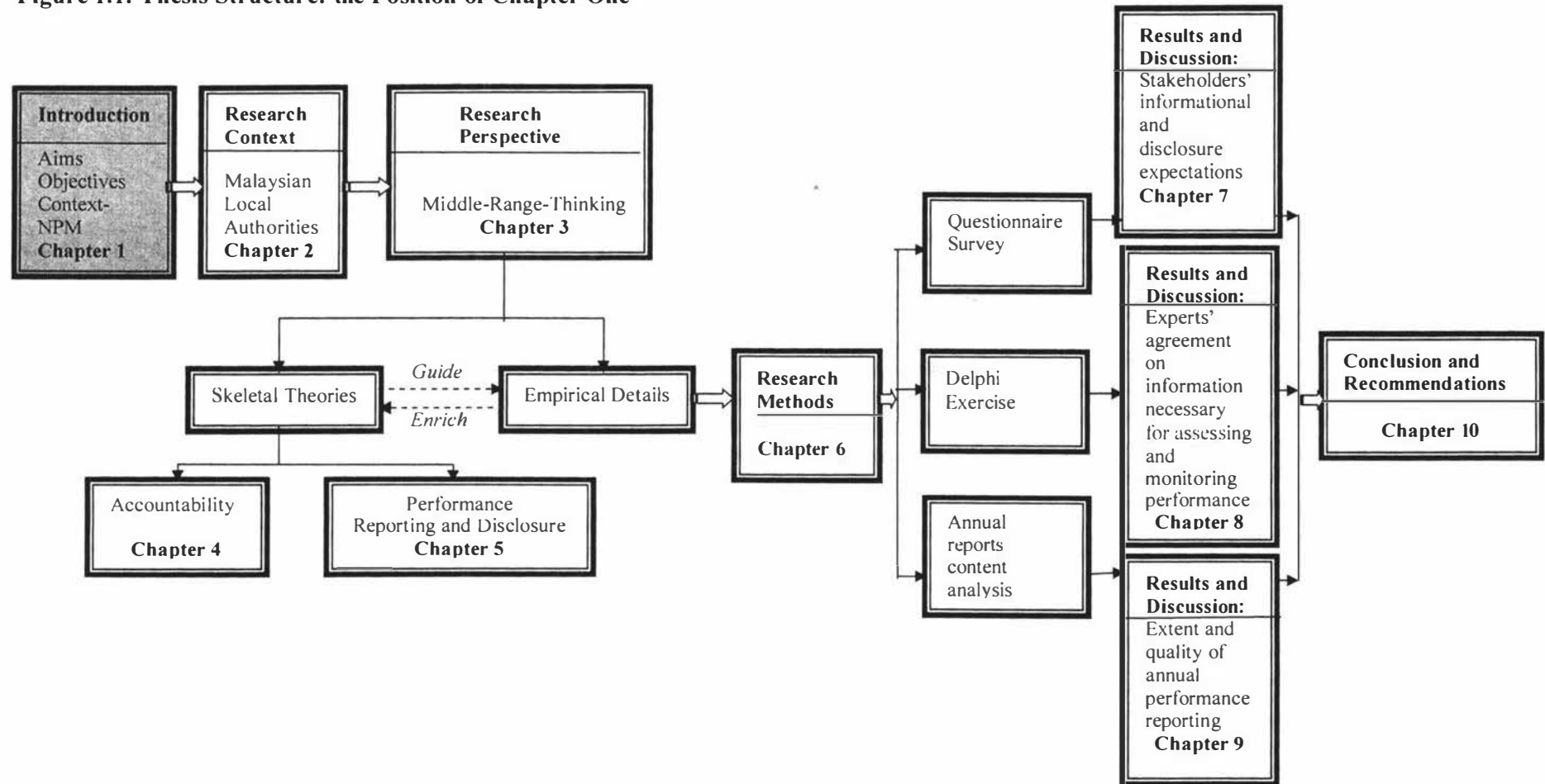
Much of the reported international research has focused on accountability within the context of developed countries where stakeholders, it has been argued, are more sophisticated and have greater capacity (and opportunity) to exercise their rights for information compared to stakeholders of public sector entities located in less developed countries (Coombs & Tayib, 2000).

The current research provides empirical evidence on how NPM, and specifically performance accountability, is operationalised within Malaysian local authorities and makes an important contribution to the knowledge of NPM in relation to the performance accountability aspect of a specific public sector group – local authorities or local government in a developing country. Research on the Malaysian environment provides one response to a call [by Pollitt (2006)] for more empirical research to be undertaken within the broad realm of public sector accountability and in the context of developing countries.

In addition to its developing nation status, Malaysia also practices a nominative representative governance system where the mayor/president and councillors of the local authority are appointed by the state government unlike most developed western countries which practice a democratically elected local authority system. This research, looking from a Malaysian perspective, seeks to offer new knowledge and development of the concept of accountability in the international public sector accounting context.

This introductory chapter explains the background to the research. It includes a general overview of public sector reforms internationally with particular reference to NPM. This is followed by a discussion on Malaysian NPM-type reforms and the reforms undertaken by Malaysian local authorities in particular, to provide the research context. Following these discussions, the motivation for carrying out the research on performance reporting and accountability is explained. This is followed by the aims, objectives and scope of the research, as well as the thesis outline. This chapter concludes with a section which highlights the publications of part of the research findings. The overall structure of the research is shown in Figure 1.1 in which the Introduction Chapter is highlighted.

**Figure 1.1: Thesis Structure: the Position of Chapter One**



## 1.2 NPM GENERALLY AND INTERNATIONALLY

Over the last two decades, management of the public sector has undergone substantial reform in both developed and developing countries. The old administrative system, which included a policy-administration dichotomy, rule-based administration, and division of labour and hierarchy (Peters, 1996), has come under severe criticism for being inefficient, costly, rigid, corrupt and unaccountable (Hughes, 1992). Attempts to address the weaknesses of the old system, via a number of internal and external reforms, have resulted in the development of a modern public sector administrative system. The external reforms, focused on strengthening government democracy and administration and internal reforms, worked towards enhancing organisational efficiency and effectiveness (Leemans, 1976).

The development of public sector reforms internationally covered three phases: the first during the 1960s and 1970s; the second from the mid 1970s to the late 1980s, and the third beginning in the late 1980s (Wollmann, 2003). The first phase, the planning period, involved political and administrative modernisation through reorganisation of governmental and ministerial structures, decentralisation of political and administrative functions and territorial reforms. The second phase aimed to achieve institutional changes, which were carried out via deregulation and the privatisation of public assets. Public sector reforms in the third phase have been related to NPM-type reforms (Wollmann, 2003), where NPM has been acclaimed as a paradigm shift in public administration (Haque, 2007). NPM was driven by a combination of economic, social and political factors such as a fiscal crisis of government, poor performance, authoritative bureaucracy, lack of accountability, corruption and changes in people's expectations (Common, 1998; Minogue, 1998).

NPM suggests an implementation of various reform initiatives with an assumption that private sector management techniques and market mechanisms will improve public sector efficiency and effectiveness. NPM thus stresses the need for private sector approaches to be adopted in public sector organisations and sees the role of the public sector officials as accountable managers who are empowered with a particular responsibility (Hood, 1995; Parker & Gould, 1999).

As a modern development of the public management tradition, NPM's global impact is significant. Due to its rapid dissemination, NPM has been regarded as a global paradigm for public management (Turner, 2002). While there is no globally cohesive model of NPM (Common, 1999; Hood, 1991; Wollmann, 2003), common elements of NPM can be identified. They include decentralisation of management, conversion of government departments into enterprises, an increased use of markets and competition in the provision of public services and performance-based accountability (Aucoin, 1990; Hood, 1991; Samaratunge, Alam & Teicher, 2008). Under NPM, public managers are given greater flexibility and freedom in their management of public resources but they must also provide greater managerial performance accountability (Batley, 1999; Hood, 1991, 1995). The emphasis on greater accountability means public managers are accountable beyond fiscal compliance. This includes performance accountability to a broad group of stakeholders (Gray & Jenkins, 1993; Hood, 1995; Parker & Guthrie, 1993) including accountability to the public in general (Behn, 1998; Haque, 2007) as public accountability is vital in improving public sector performance (Haque, 2000). Public managers are required to provide satisfactory explanations for their actions in ensuring efficiency in the use of resources and quality of services. They are also answerable to the public for their actions and inactions for which they are subject to both external and internal sanctions (Haque, 1994; Romzek, 2000).

In developing countries, NPM-type reforms typically became an integral part of the public sector reform during the 1990s (ADB, 2004; Samaratunge & Bennington, 2002). The common themes underpinning NPM reforms in these countries, and especially in East Asia, have been a greater emphasis on accountability, an increased concern for performance, and implementation of private sector practices in the public service (Turner, 2002). The reforms have been undertaken to support national, social and economic development agendas such as to facilitate private sector involvement in the economy, to attract foreign direct investment (Samaratunge et al., 2008), and to promote efficiency and effectiveness of administration (Leemans, 1976). This research focuses on NPM in Malaysia and particularly Malaysian local authorities.

Malaysia has been categorised as an "enthusiastic diner" of NPM, due to its "selective borrowing and modification of foreign NPM models while simultaneously pursuing domestic innovations" (Turner, 2002, pp.1497, 1505). However, there still exists traditional top-down bureaucratic structures and behaviours (Haque, 2003, 2007).

According to Haque (2003, 2007) the reform initiatives were constrained by the country's unique political system and a culture dominated by ethnic identity<sup>1</sup>. Given these political and social constraints, it is interesting to know the extent to which the call for greater and improved accountability (both performance and public accountability), as inspired by NPM has been operationalised in the Malaysian public sector. Therefore an empirical research within the Malaysian context provides a significant contribution to the international literature. The fact that the NPM-type reforms that have been implemented have differed from these of other countries due to the different political, economic and social contexts (Samaratunge et al., 2008), means that the contribution of a Malaysia-based study, that adds a developing country's viewpoint to the existing literature, is undoubtedly valuable.

### **1.3 NPM IN MALAYSIA AND MALAYSIAN LOCAL AUTHORITIES**

In Malaysia, the NPM-type reforms have been implemented to achieve the country's broad national goals which include the achievement of macroeconomic stability and industrial development (Samaratunge et al., 2008) by inducing a more efficient and market-driven administration (Siddiquee, 2006; Swee & Kevasapany, 2006).

Some of the earliest public sector reform initiatives in Malaysia can be traced back to the 1960s. The reform initiatives during this phase aimed to stabilise the newly formed nation, maintaining the traditional public management functions in order to help transform the Malaysian civil services into a modern and dynamic administration (Yusoff, 1994). In the 1970s, the reforms focused on the development of administration and the creation of public sector enterprises and statutory bodies. The 1980s and 1990s saw the implementation of many public sector reform initiatives identified as being NPM-type reforms. Common (1999) outlined factors which have driven the NPM reforms in Malaysia, and especially the reforms undertaken during the 1990s. These include economic development, globalisation, politics and the role of international organisations. The political factor has been recognised as the most influential driver of public sector reforms in Malaysia (Kaul, 1996). The government motivation to undertake the reforms, which aimed to improve its administrative processes, was to ensure continuous political support from the constituents in order to stay in power

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<sup>1</sup>

Details about Malaysia's political and social structure are discussed in Chapter Two.



(Common, 1999). It is also claimed that international organisations such as the World Bank, the Asian Development Bank and International Monetary Fund (IMF) put pressure on Malaysia to undertake public sector reforms, especially in the late 1980s (Gomez & Jomo, 1997). Malaysia's high economic growth from 1987 until the Asian financial crisis in 1997 also put pressure on the government to carry out various reforms. The reforms aimed at improving civil service capacity and introducing public-private sector relationships in order to sustain the outstanding economic development. In response to the impact of globalisation, the government implemented reform strategies aimed at creating a national competitive advantage through increased economic growth and investment and enhanced skills of public personnel (Common, 1999). For example, in the 1990s, the government's concerns with global impacts were reflected by reform strategies outlined in national economic plans such as the Sixth Malaysian Plan 1991–1995 (Awang, 1995).

NPM-type reforms in Malaysia have been implemented across all levels of public sector administration, from federal to state government departments and agencies including local authorities.

The NPM reform initiatives carried out in the local authorities and in all public sector organisations during the 1980s and 1990s can be classified into two types – managerial and financial. Restructuring the public management system was the focus of the reforms carried out in the 1980s which aimed to strengthen the professional competency of the civil service and to develop administrative leadership (ADB, 2004). In order to encourage co-operation between the public and private sectors with aims to improve the national economy, the 'Malaysia Incorporated' policy was introduced in 1983 (PMD, 2001; Yusoff, 1994). Along with this policy, the government adopted the Privatisation Master-Plan, which focused on vital sectors such as telecommunication, electricity and transportations and aimed to reduce spending and the state's fiscal burden and to strengthen market forces (Haque, 2007). Several services of local authorities such as solid waste disposal, sewerage service and water supplies were privatised (Singaravelloo, Md.Sidin, Sambasivan & Mohd Noor, 2006).

Following these initiatives, Total Quality Management (TQM) and Quality Control Circles (QCCs) were introduced in local authorities and all public sector organisations aimed at generating a work culture that encouraged innovation, productivity and

participatory management (Samaratunge et. al., 2008). Further, a Clients' Charter was implemented. This is a written commitment of government agencies, including local authorities, to the delivery of services to their respective customers. It also acts as a strong pledge to provide quality services that meet customers' needs.

In terms of financial reform initiatives, local authorities have been required to use an accrual accounting system since the introduction of the Local Government Act 1976. However, a fund (vote) accounting system is still being practised alongside accrual accounting (Othman, 2001) as the budgeting system in local authorities still remains (to date) based on a modified cash basis, the Modified Budgeting System (MBS).

The MBS has been introduced to replace the Programme Performance Budgeting System (which involved cash-based budgeting). The MBS has been fully implemented in local authorities and all public sector organisations since 1995. MBS emphasises decentralised management by matching authority and accountability. Under MBS, local authorities are required to provide a programme agreement with the Treasury in the annual budget paper, specifying the inputs and expected outputs and impacts of a particular programme or service. This is to develop a more accountable system of management in both legal compliance and service or programme performance (Xavier, 2000). MBS is supported by the Micro Accounting System that provides cost information for the output of each programme or activity carried out by public sector organisations. To ensure continuous improvement in public sector reforms, benchmarking was introduced in 1999 (PMD, 1999) to help encourage public agencies to consistently engage in the reform programmes, inculcate learning from others, improve expertise and encourage co-operation (Mohamad, 2004).

Furthermore, in order to improve accountability of civil servants in their financial management responsibilities, an internal auditing system was introduced in public sector organisations. To date, local authorities are not compulsorily required by the Treasury Circular No. 2/2004 to have an internal audit unit. However, it was reported that thirty-one (21 percent of the total local authorities in Malaysia) voluntarily had an internal audit unit (Report of Internal Audit Seminar, 2007).

In the 2000s, the greater emphasis on performance has been more apparent in public sector organisations including local authorities. The implementation of Key

Performance Indicators (KPI) in the middle of 2005 has required all federal government agencies to establish KPI and to report these to higher authorities. However, the implementation of KPI in local authorities that are placed under state government jurisdiction is dependent on the acceptance of the respective state governments (Public Administration Development Circular No.2/2005) and to date, the external reporting of KPI is not yet mandatory.

Overall, NPM reforms in the Malaysian public sector, including local authorities, have emphasised decentralisation, a greater role for accounting, the adoption of specific private management techniques and results/performance-based accountability. With the implementation of various NPM-type reforms, local authorities are expected to provide more efficient and effective delivery of services and be more accountable for their performance and to their stakeholders, including the public. However, there have been, and still are, increased demands for local authorities to have even greater transparency and accountability for their management (Buang, 2006; Berita Harian, 2005; Berita Harian, 2008; Phang, 2008; The Star, 2005; The Sun, 2005; Utusan Malaysia, 2008). According to Phang (2008, p.3), the Malaysian public are expecting more efficient and effective delivery of services by local authorities but there is a gap in “the demand and supply both in service delivery and in judgements” of local authorities. It has also been reported that higher authorities, such as state governments, are beginning to express dissatisfaction with the performance of local authorities and are seeking greater accountability from them for more efficient and effective service performance (Abdullah, 2006; The New Straits Times, 2003; Sinar Harian, 2008). The public demand for better service performance, and the increasing public criticism and declining public trust in government agencies highlights the need for greater public and performance accountability. These needs are examined in this current research.

#### **1.4 MOTIVATIONS TO RESEARCH**

It has been claimed that NPM reforms that call for improved accountability in both performance and public accountability can actually inhibit the aims that they promote. It has been claimed that the reforms have emphasised procedural and economic criteria, such as efficiency and productivity, over public concerns such as equality and representation (Haque, 2000; Parker & Gould, 1999). Another public accountability

challenge highlighted by Haque (2000, 2007) is related to the parties to whom a public manager is supposed to be accountable. NPM reforms have tended to reduce some social rights, in that public managers are accountable to customers and ignore other members of the public such as low-income citizens. It has also been pointed out that the introduction of public-private partnerships or outsourcing as prescribed by NPM also creates a challenge to public accountability because it is not clear who is accountable for what (Haque, 2007). In the case of Malaysia, the question has been raised as to whether public accountability has been compromised as a result of the introduction and expansion of public-private partnerships (Sarji, 1996). Aucoin (2000) implied that public accountability that emphasises probity, fairness and impartiality should not be compromised for improved performance as the result of the implementation of NPM-type reforms. The drive for performance criteria – efficiency and effectiveness - cannot be detached from the broader public's accountability concerns (Parker & Guthrie, 1993). These indicate that the discharge of public accountability under NPM needs to be balanced with an emphasis on accountability for performance. In this respect, Haque (2000, p.611) suggests that “greater transparency and public access to relevant information” need to be given greater attention. Greater transparency has been recognised as a key element in enhancing public accountability (Ezzamel, Hyndman, Johnsen & Lapsley, 2007; Koppel, 2005). It is argued that greater transparency and public accessibility to information that will consequently improve the discharge of public accountability can be manifested through reporting, particularly the external performance reporting that provides performance information to a wider group of stakeholders. The public and other stakeholders can make an informed judgement on the performance of public organisations if they are provided with relevant performance information such as information on the quality, quantity and cost of services provided and activities undertaken. The provision of such information is an important aspect of accountability (Coy, Fischer & Gordon, 2001; Rutherford, 2000).

In addition to improved public accountability, performance reporting allows an entity to demonstrate its internal and external achievements (Barrett, 1997; Lee, 2008; OECD, 2004). It has become the preferred method to achieving greater efficiency and effectiveness (Pallot, 1991). The importance and advantages of performance reporting in promoting greater managerial performance accountability as prescribed by NPM has been widely recognised in the literature (for example, Christensen & Yoshimi, 2003; OECD, 1995; Pollitt & Bouckaert, 2000). Complete and accurate information on an

organisation's operations and performance, such as through performance reporting, may also allow the monitoring of the behaviour of public officials (Schacter, 2000) and overall organisational performance (World Bank, 1999). It is therefore argued in the current research that performance reporting through the medium of annual reports may discharge greater accountability in terms of both performance and public accountability.

Within the theoretical framework of accountability and the context of NPM, performance and public accountability are the focus of this research. Performance reporting, through the medium of annual reports and as a technique to promote the performance accountability aspect of NPM, is examined through a case study of Malaysian local authorities. Given the fact that the Malaysian public sector, including its local authorities, has undergone significant NPM-type transformation, the expectations of NPM which call for greater accountability should be met. Therefore, Malaysian local authorities provide a relevant and appropriate research context to empirically examine NPM-type accountability. In addition, to date, knowledge of how NPM expectations of the discharge of accountability have come to be operationalised in Malaysian local authorities is still limited.<sup>2</sup> For example, Saidin, Tayib, Engku Ali and Samsudin (2006) and Tayib, Coombs and Amin (1999) focused only on the financial reporting of local authorities and the information expectations of the local authorities' tax payers. Neilson and Mucciarone (2007) limited their study to examining the reporting of performance indicators. The current research focuses not only on financial information but also non-financial performance information and it has also taken into consideration the informational and disclosure expectations of a broad group of stakeholders of local authorities. Another study, by Singaravelloo et al. (2006), although recognising the importance of performance measurement in local authorities, did not examine the external reporting of performance. To date, there is no study that examines the accountability of and the discharge of accountability through external performance reporting by Malaysian local authorities. In terms of measuring the level of disclosure, Coombs and Tayib (2000) developed an index based on CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and applied the index to annual reports of Malaysian local authorities. The current research, on the other hand, employs a broader perspective in developing the disclosure index. The information and disclosure expectations of a broad group of stakeholders and also of expert stakeholders are considered.

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The related Malaysian studies are reviewed in Chapter Five, Section 5.6.

The current research responds to the call by Steccolini (2004) to address issues of how an annual report can be used as a vehicle to discharge organisational accountability and the identification by previous researchers of the need for research to improve the quality of performance reporting as an accountability mechanism (Carlin & Guthrie, 2001; Guthrie & Parker, 1998; Lee, 2008; Pollitt & Bouckaert, 2000). However, the literature to date has found that the type of performance information required often varies from one context to another (Lee, 2008). The current research addresses this issue by identifying the relevant information for assessing and monitoring the performance of local authorities and the importance of such information for disclosure from a stakeholder perspective.

Therefore, this current research addresses the following research questions:

*Research Question 1*

What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities?

*Research Question 2*

What type of information do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities?

*Research Question 3*

How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders?

*Research Question 4*

What type of information items do expert stakeholders agree is necessary for assessing and monitoring the performance of local authorities and what is the importance of such items for disclosure?

*Research Question 5*

How can the information and its importance for disclosure, as agreed by the experts, be organised as a disclosure index for assessing the extent and quality of information disclosure?

*Research Question 6*

What is the extent and quality of disclosure of information within the annual reports of Malaysian local authorities?

*Research Question 7*

Does the information being disclosed in the annual reports meet the expectations of stakeholders?

*Research Question 8*

To what extent is accountability being discharged through annual performance reporting of local authorities?

## **1.5 RESEARCH AIMS AND OBJECTIVES**

The aims of the research are to investigate the performance reporting practices and accountability of Malaysian local authorities and ascertain whether such practices meet the expectations of the local authorities' stakeholders. Meeting the expectations of a broader stakeholder group is important for public accountability purposes. Eventually, the aim is to make recommendations about the future direction of external performance reporting of Malaysian local authorities.

By addressing the research questions outlined in the earlier section, the following objectives are involved in achieving the aims:

1. To explore the concept of accountability from the perspective of Malaysian stakeholders and the stakeholders' understanding of their relationship with local authorities.
2. To identify the type of information that a broad group of stakeholders expect to enable them to assess and monitor the performance of Malaysian local authorities.
3. To identify the stakeholders' perceptions of the importance of information items for disclosure.
4. To identify experts' perceptions of and agreement on the information necessary for assessing and monitoring the performance of Malaysian local authorities and the importance of such information for disclosure.
5. To develop a special purpose disclosure index to assess the extent and quality of performance information published in annual reports of Malaysian local authorities.
6. To evaluate the extent and quality of disclosure of performance reporting within the annual reports by applying the developed disclosure index.

7. To ascertain whether the informational and disclosure expectations of stakeholders are being met.
8. To ascertain the extent to which accountability is being discharged through performance reporting.

## **1.6 RESEARCH SCOPE**

The scope of the research is limited to one part of the Malaysian public sector (local authorities). Local authorities are the government agencies that deal most directly with the public as ratepayers and consumers. The authorities are expected by the public to fulfil public needs using rates or taxes paid to the authorities. The authorities may also be expected to justify their actions in relation to their use of public monies. Therefore, local authorities provide a better avenue to examine the issues of public accountability and the discharge of such accountability through annual performance reporting than other government agencies.

This research involves an examination of the annual reports of local authorities and is limited to reports published in 2003, 2004 and 2005. These were identified as the latest reports available during the period of data collection (August to November 2006). Therefore, the findings are limited to up to the year 2005. Detailed justifications for the selection of the 2003, 2004 and 2005 annual reports are provided in Chapter Six, Section 6.2.3.2.

The statutory requirements pertaining to the annual reporting by local authorities are outlined in the Local Government Act 1976. The reporting requirements are, however, largely uninformative as to specific form and content. Further, there is no statutory requirement specifically for local authorities that extends the reporting of performance beyond the provision of traditional financial statements. Therefore this research could not determine the level of compliance with statutory requirements for annual report disclosures. Instead, the research adopts an accountability framework with respect to stakeholders' informational and disclosure expectations in examining the practice of performance reporting. This research also involves a questionnaire survey of local authorities' key stakeholders, as identified from a literature review that have an accountability relationship with local authorities. Other stakeholders are beyond the scope of this research.



## 1.7 THESIS OUTLINE

As illustrated in Figure 1.1, this thesis comprises ten chapters, each of which is outlined as follows to assist in navigating the thesis contents.

### ***Chapter One: Introduction to research background and outline of the thesis***

### ***Chapter Two: Background to Malaysian local authorities***

The aim of this chapter is to provide background information on Malaysia in general and on Malaysian local authorities (MLAs) in particular. This chapter highlights the structure of MLAs and the relationship between the authorities and the federal and state governments, and discusses the local authorities' functions and sources of finance. The background information provided in this chapter is important for understanding the setting of the research and the accountability framework within MLAs that are discussed in Chapter Four.

### ***Chapter Three: Research methodology***

This chapter provides a discussion on middle-range thinking (MRT), the perspective applied in the current research. This perspective suggests that phenomena can only be explained by 'skeletal' or partial/incomplete theories and that empirical details are needed to complete the theories. This chapter brings to the fore the concept of a skeletal theoretical framework as the MRT perspective has suggested.

### ***Chapter Four: Theoretical framework of accountability***

This chapter develops and proposes a theoretical framework of accountability that is used in guiding the empirical investigations undertaken in the research. The framework is developed around the issues of what is accountability, to whom accountability is owed in general and to MLAs in particular, the nature of the accountability relationship between MLAs and their stakeholders, for what accountability is rendered (with a particular reference to MLAs), and how accountability is discharged, with a particular focus on the annual report and the current requirements for annual and performance reporting of MLAs. The theoretical framework that is used to guide empirical investigations is extended in Chapter Five.

### ***Chapter Five: Performance reporting and the discharge of accountability***

This chapter extends the discussion of the theoretical framework of this research to include a discussion on theory of performance reporting and disclosure. A review of

literature surrounding the issues relating to the discharge of accountability through annual performance reporting and disclosure is presented. This chapter also provides a review of relevant Malaysian studies that show the relevance of this research.

#### ***Chapter Six: Research method***

Having developed and proposed the theoretical framework of this research, this chapter discusses how the empirical investigations were carried out. Specifically, this chapter explains the methods of data collection and analysis. The methods include a questionnaire survey, a Delphi exercise and a content analysis of annual reports. The process of developing the disclosure index to be used for content analysis and the scoring procedure are also discussed. The results obtained from employing these research methods are reported in Chapters Seven, Eight and Nine.

#### ***Chapter Seven: Results and discussion: stakeholders' perceptions of the accountability of Malaysian local authorities and expectations on performance information disclosure***

This chapter reports the results obtained from the questionnaire survey. Specifically, it reports and discusses the understanding of a broad group of stakeholders of MLAs, on the concept of accountability and their relationship with local authorities. In addition, it reports and discusses the information necessary for accessing and monitoring the performance of local authorities and the importance of such information for disclosure as perceived by the broad group of stakeholders.

#### ***Chapter Eight: Results and discussion: experts' agreement on the disclosure of performance information and finalisation of disclosure index***

This chapter reports the results obtained from the Delphi exercise – an opinion-seeking exercise that involves an expert panel. Specifically it reports and discusses the agreement/consensus of the experts on the information necessary for monitoring and assessing the performance of local authorities and the importance of information for disclosure. The finalisation of the disclosure index that was used in the content analysis of annual reports is based on the experts' agreement and the determination of quality criteria and is presented in this chapter.

#### ***Chapter Nine: Results and discussion: extent and quality of performance reporting and the discharge of accountability through annual reporting***

By applying the disclosure index, the scores for extent and quality of annual reports of local authorities are determined. This chapter reports and discusses the results obtained

from the scoring of the annual reports of local authorities. It concludes with a discussion of the discharge of accountability by MLAs through performance reporting by examining whether the informational and disclosure expectations of the stakeholders are being met.

#### ***Chapter Ten: Summary, recommendations and conclusion***

A summary of the thesis, recommendations for performance reporting by Malaysian local authorities and future research, and the overall conclusion of the research are provided in this chapter.

### **1.8 PUBLICATIONS**

To date, two papers have been accepted for publication:

- Stakeholders' perceptions on the accountability of Malaysian local authorities, *Advances in Public Interest Accounting Review*, (2010, forthcoming).
- Performance reporting by Malaysian local authorities: identifying stakeholder needs, *Financial, Accountability and Management*, (2010, forthcoming).

The first paper addresses the understanding of stakeholders of Malaysian local authorities of the concept of accountability and their relationship with local authorities. The second paper identifies the perceptions of stakeholders of the information that they expect to enable them to assess and monitor the performance of local authorities, and on the importance of such items for disclosure in annual reports of local authorities. Further papers that report on the findings of the research and the expectation gap are being developed.

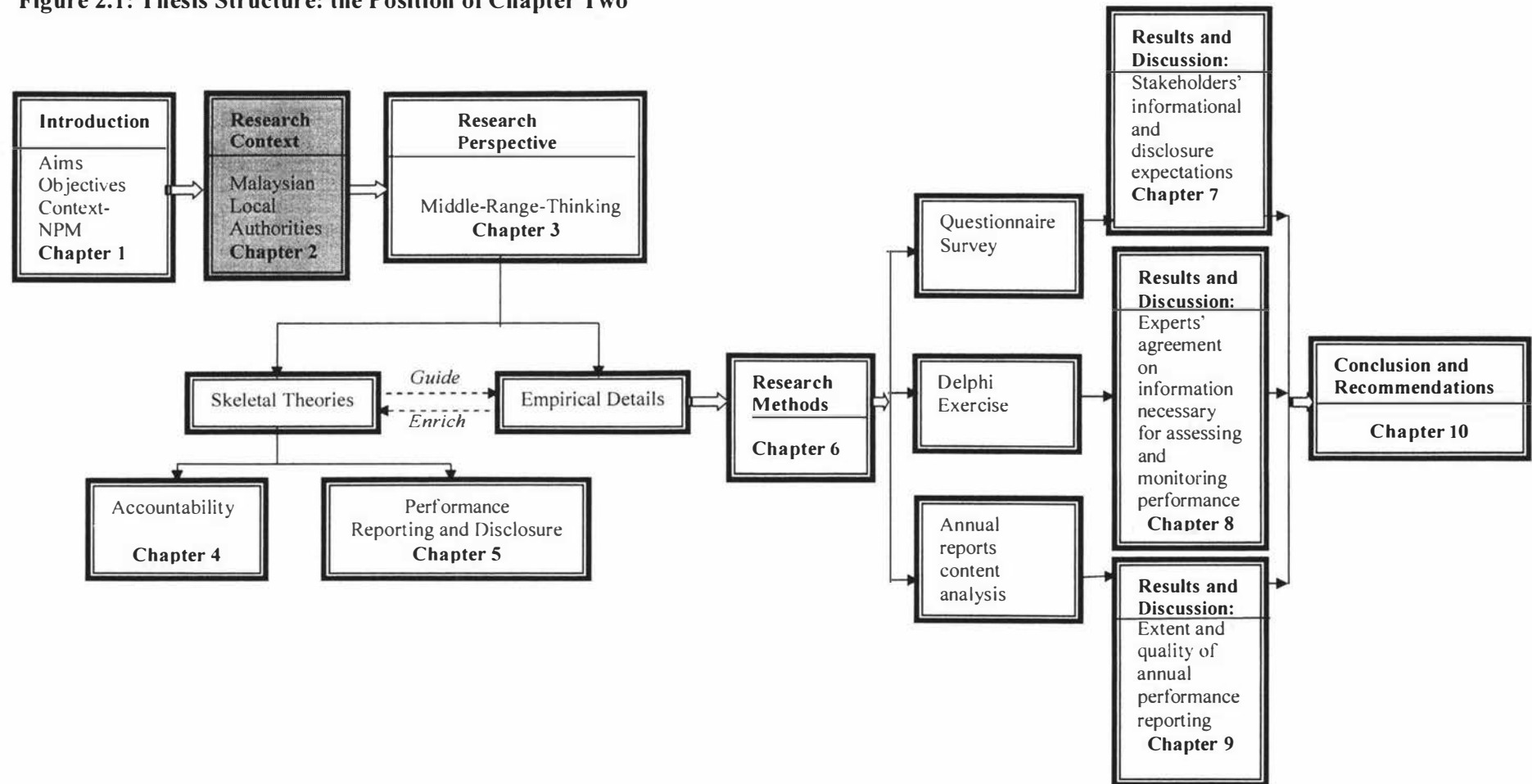
## **CHAPTER TWO**

### **BACKGROUND TO MALAYSIAN LOCAL AUTHORITIES**

#### **2.1 INTRODUCTION**

The aim of this chapter is to provide background information on Malaysia in general and on Malaysian local authorities in particular. This chapter highlights the structure of the authorities and their relationship with the federal and state governments and discusses the functions and sources of finance of local authorities. The background information provided in this chapter is important for understanding the setting of the research. Following this introductory section, this chapter consists of four other sections – Section 2.2: Brief background to Malaysia and the Malaysian system of government; Section 2.3: The structure of Malaysian local authorities; Section 2.4: The relationship between the local authorities and the state and federal governments; and Section 2.5: Function and finance – which describes the functions and sources of finance of the local authorities. This chapter concludes with a summary in Section 2.6. Figure 2.1 shows the position of this chapter in relation to the thesis.

**Figure 2.1: Thesis Structure: the Position of Chapter Two**



## 2.2 BRIEF BACKGROUND TO MALAYSIA AND THE MALAYSIAN SYSTEM OF GOVERNMENT

Malaysia is a federation of thirteen states and three federal territories. It is a constitutional monarchy, which upholds the principles of parliamentary democracy. The population of 26.9 million comprises three major ethnic groups – Malay, Chinese and Indian (Samaratunge et al., 2008). It is a former British colony and inherited an administration system heavily influenced by the British colonial model. The parliament, which is modelled after the British Westminster system, consists of the King (*Yang Di Pertuan Agung*), the Lower House (*Dewan Rakyat*) of elected representatives and the Upper House (*Dewan Negara*) of appointed senators. The King has a five-year term and is appointed by the Conference of Rulers (*Sultans*) from the rulers of nine states.<sup>3</sup> The King has discretionary powers over matters of religion and the Malay culture and tradition. The federal government consists of legislative, judicial and executive authorities with the King as the constitutional monarch (Onn, 1986; Milne, 1967). As stipulated in the Federal Constitution, the executive power is vested in the hands of the King but is exercisable by a cabinet of ministers led by the prime minister. The cabinet members are appointed by the King (based on the suggestion of the prime minister) to advise him in the exercise of his function. The prime minister, appointed by the King, is the leader of the party that has a majority in the Lower House. The cabinet is collectively responsible to Parliament. The structure of the federal government is summarised in Figure 2.2.

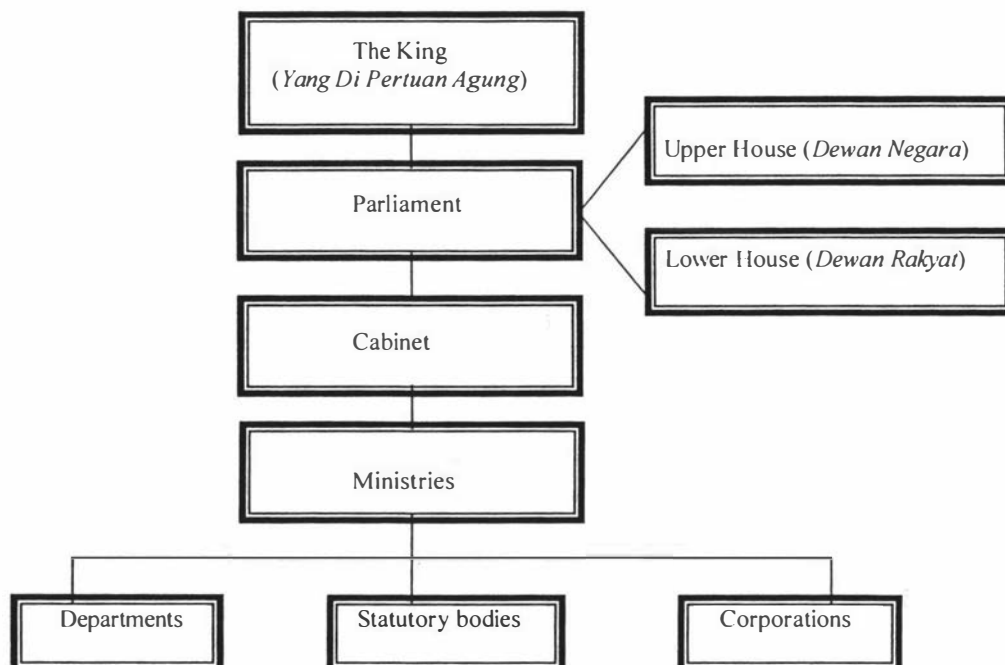
The federal government administration process is through the ministries; each ministry is responsible for one or more departments, statutory bodies and public corporations. The departments were set up to implement policies and carry out the activities of the respective ministries. Statutory bodies are organisations which have autonomy in management and financial matters, and are established through an Act of Parliament (Othman, 2001). These bodies are considered government organisations and not limited companies as they are not bound to the Companies Act 1965. Other federal government administrative entities are public corporations, which include government-owned and government-controlled companies and are governed by the Companies Act 1965.

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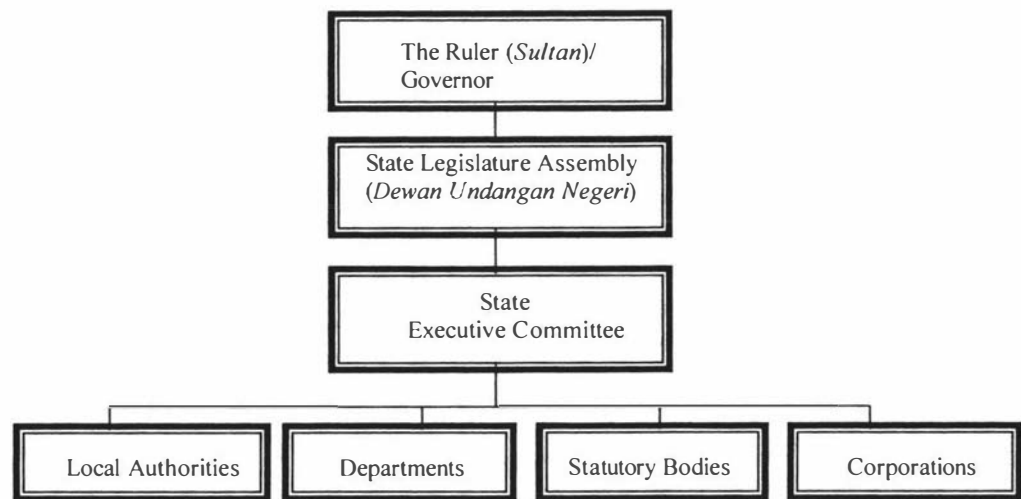
Four other states do not have rulers but governors, appointed every four years by the King.

**Figure 2.2: The Structure of the Federal Government**



At the state level, each state has “unicameral legislature” (UNESCAP, 2002, p.4) - the state legislature assembly, with the state ruler or governor (in the states where there is no hereditary ruler) as the supreme head (EIU, 2006). The members of the state assembly are elected representatives (elected at least every five years). The federal cabinet equivalent of each state government is called the State Executive Committee (EXCO) which is chaired by the chief minister. At the state level, the government administrative entities consist of local authorities (city, municipal and district councils), departments, statutory bodies and public corporations. The structure of the state governments is shown in Figure 2.3.

**Figure 2.3: The Structure of the State Governments**



In terms of legislative power between the federal and state governments, the Ninth Schedule of the Federal Constitution specifies the constitutional division of legislative power between the two levels of government. The division is shown in Table 2.1.

**Table 2.1: The Division of Power/Responsibilities between the Federal and State Governments**

Federal Responsibilities	State Responsibilities	Shared Responsibilities
External affairs Defence and security Trade, commerce and industry Shipping, communication and transport Water supply, rivers and canals Finance and taxation Education and health Labour and social security Public works and utilities Local Authorities of Federal Territories	Muslim religious law Land ownership and use Agriculture and forestry State works and water supply, when not federalised Loans for state development and public debt Malay reservation and custom <b>Local authorities<sup>4</sup></b>	Social welfare Public health Town and country planning Drainage and irrigation Rehabilitation of mining land and soil erosion National parks and wildlife

Adapted from Phang (2008, p.2)

<sup>4</sup> The term 'local government' is used in the Federal Constitution. In fact, the terms 'local government' and 'local authority' are often used interchangeably in Malaysia (Othman, 2001).



As Table 2.1 indicates, the constitution stipulates that all local authorities (except authorities of the federal territories) fall under the exclusive jurisdiction of their respective state governments. The local authorities located within the federal territories directly fall under the jurisdiction of the federal government (Federal Constitution, item 4 in list II of the Ninth Schedule)<sup>5</sup>. The following sub-section provides a detailed discussion of the local authorities.

## **2.3 THE STRUCTURE OF MALAYSIAN LOCAL AUTHORITIES**

Local authorities are semi-autonomous entities within the state framework. As stipulated in the Federal Constitution, local authorities have limited jurisdiction, that is, they can only perform functions specified in the statutes and within their jurisdiction. The wider legislative powers remain with the state government. In other words, the respective state government has the power to control the authorities and to ensure their proper functioning. Local authorities are the dominant state government administrative entity in local areas. The Town and Country Planning Act, 1976 (Section 5) stipulates that a local authority approves and controls all planning and development applications in its area.

The early forms of local authorities tended to be modelled on British institutions as a result of Malaysia having been colonised by Britain for nearly two centuries (Norris, 1980). However, over time local authorities in Malaysia have evolved into “a system having its own identity, characteristics and laws that reflect the socioeconomic and political environment of the country” (UNESCAP, 2002, p.8).

Both during British rule and after independence in 1957, an election system was implemented at the local level. Local residents elected their mayor/president and council members. However, in 1965 elections of local authorities were halted due to internal administrative and political problems such as an unequal ethnic balance in urban areas (Singaravelloo et al., 2006) and the violent confrontation of Indonesia against the newly formed Malaysian federation in 1964 (UNESCAP, 2002). Elected and autonomous local government was replaced by a “bureaucratic dominant type of local government” (Cheema and Hussein, 1978, p.580), from 1965 on. Since then, Malaysia has adopted a nominative representation system at its local level, where the ruling party holds power

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The local authorities of the Federal Territories are beyond the scope of the current research.

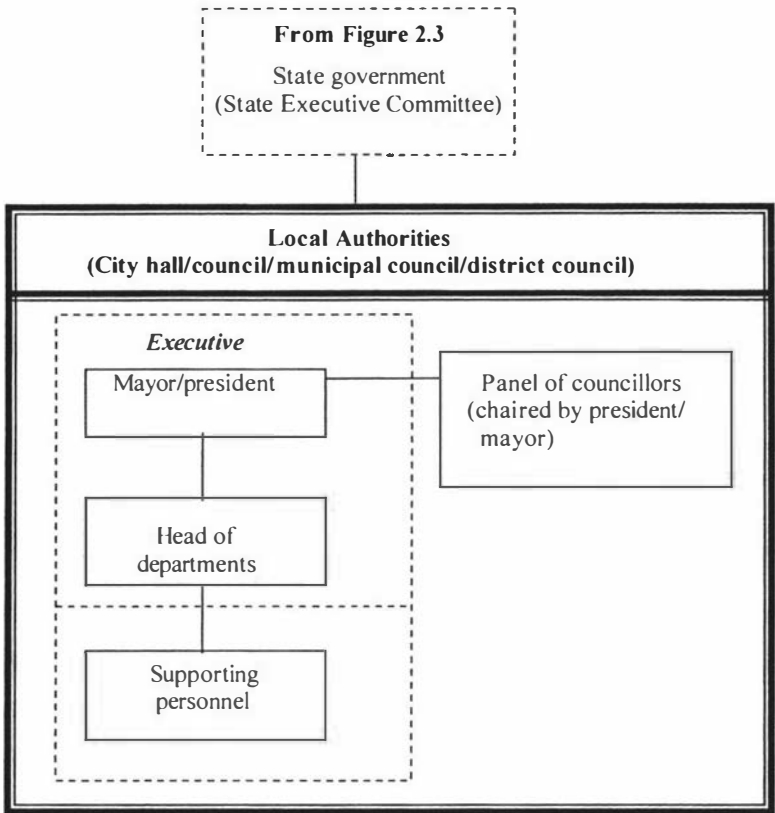
in the locality in that the state government appoints the mayor/president and all other council members.

By the early seventies, there were a large number of local authorities (374 in Peninsular Malaysia) which were relatively small, non-autonomous and not practical (UNESCAP, 2002). This led to restructuring and reforming of the local administrative system as well as the adoption of the Local Government Act 1976 (widely known in Malaysia as Act 171). As stipulated in the act, local authorities were consolidated into three main categories according to the size of their population and annual revenue: city councils/halls, municipal councils and district councils. To be categorised as a city council or hall, the population should be more than 500,000 and the annual revenue should be more than 100 million Malaysian *Ringgits* (MYR). As a municipal council, the population should be more than 150,000 and the annual revenue more than MYR 20 million. For district councils, the population should be fewer than 150,000 and the annual revenue fewer than MYR 20 million. As a whole (Peninsular and East Malaysia), there are 146 local authorities made up of twelve city councils/halls, thirty-seven municipal councils and ninety-seven district councils (as at October 2008). Of 146 local authorities, ninety-eight are located in Peninsular Malaysia comprising eight city councils/city halls, thirty-three municipal councils and fifty-seven district councils<sup>6</sup> (Ministry of Housing and Local Government, [www.kpkt.gov.my](http://www.kpkt.gov.my), accessed on 9 October 2008). The organisational structure of local authorities is depicted in Figure 2.4.

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<sup>6</sup> The scope of the current research is the city councils/city halls and municipal councils in Peninsular Malaysia and this is justified in Chapter Six.

**Figure 2.4: Organisational Structure of Local Authorities**



As shown in Figure 2.4, local authorities are under the responsibility of the State Committee for Local Government (a committee under the State Executive Committee). Each local authority (city hall/council; municipality or district council) (as specified in Act 171) consists of a president (or a mayor for city halls), and between eight and twenty-four other councillors who are appointed by the respective state government for a three-year term, with the option of reappointment (Phang, 2008)<sup>7</sup>. This panel of councillors is equivalent to a board of directors in an organisation (Coombs & Tayib, 2000). The majority of the councillors should be persons residing in the local authority area and must have wide experience in local government affairs or have achieved high standing within a particular profession or the commercial sector to make them, in the view of the state authority, capable of representing the interests of the local community (Section 10 of Act 171). This gives flexibility in appointing councillors for the ranks of government officials, politicians, professionals and business persons or any other groups

<sup>7</sup> For the three local authorities located within the three federal territories, their mayors/presidents and other council members are appointed by the minister of federal territory with the consent of the prime minister.

in the community (Cheema & Hussein, 1978). This provision also ensures that the representatives are chosen from local residents who understand the specific needs of the local community. However, in most cases councillors are politicians from the ruling party (Phang, 2008).

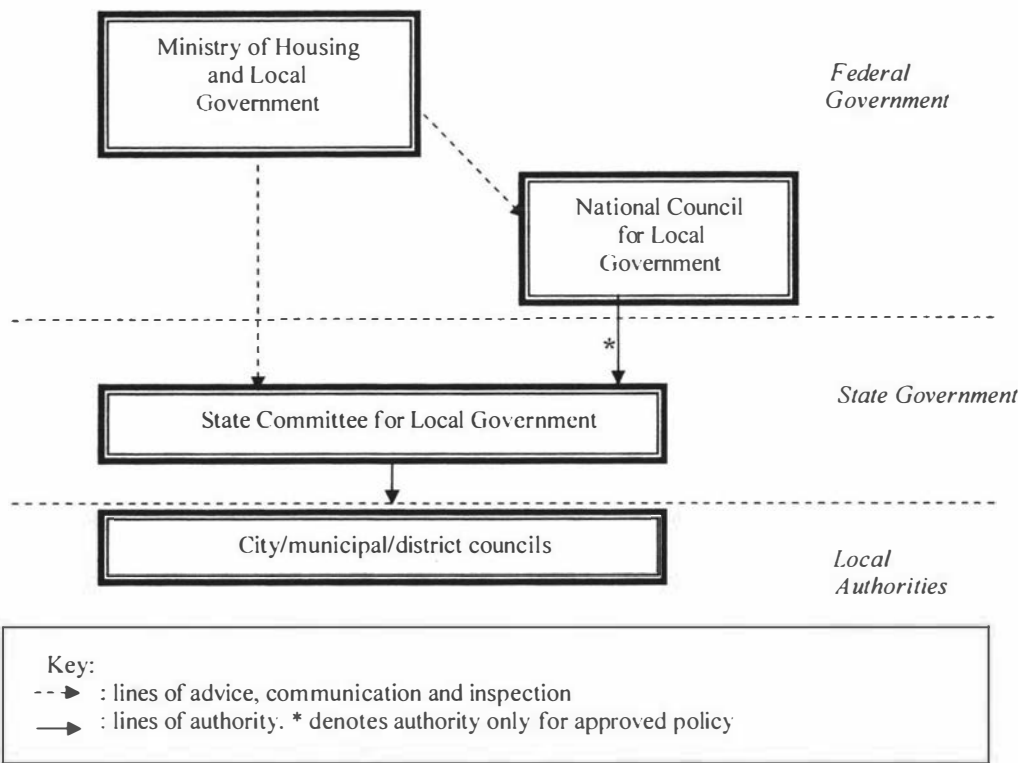
The main responsibility of the council members is to decide broad policies related to the local authority and to oversee their implementation. Each council is supported by a system of committees established to help the local authority in management and decision-making. Predominant power lies with the mayor/president. In the case of a conflict between councillors and the mayor/president, the matter is referred to the chief minister of the state government (Cheema & Hussein, 1978). The day-to-day administration of a local authority is in the hands of the executive, made up of the mayor/president and the heads of departments. Supporting personnel of each department carry out daily operations for local authorities. The mayor/president chairs both the council and the executive.

The following section details the relationship between local authorities and both the state and federal governments.

## **2.4 THE RELATIONSHIP BETWEEN LOCAL AUTHORITIES, THE STATE GOVERNMENT AND THE FEDERAL GOVERNMENT**

The Federal Constitution stipulates that local authorities be subject to the jurisdiction of the state governments, which hold wide administrative and financial controls over local authorities. As Figure 2.5 shows, the state government has control over local authorities through the State Committee for Local Government.

**Figure 2.5: The Relationship between Local Authorities and the Federal and State Governments**



Source: Cheema and Hussein, 1978, p.584; Othman, 2001, p.175.

The powers of the state governments include the power to approve local authorities' budgets, the power to approve the appointment and dismissal of mayors/presidents, councillors and other staff, the power to withhold confirmation of by-laws and the power to withhold the imposition of rates by local authorities (Cheema & Hussein, 1978). Any directions issued by the state governments also bind local authorities and the authorities are required to furnish the state governments with all information related to their properties and activities (Faruqi, 2001). Figure 2.5 also shows the relationship between local authorities and the federal government.

The federal government deals with local authorities primarily through the Ministry of Housing and Local Government. The ministry provides advice to the local authorities in matters especially related to legal and major policy issues (Article 5A, the Federal Constitution). The ministry has a direct relationship with the state government (in particular the State Committee for Local Government), through the National Council for Local Government, chaired by the deputy prime minister, to monitor the affairs of local

authorities. The Federal Constitution (Article 95A) provides for the National Council for Local Government to act as a forum for federal, state and local authorities to co-ordinate policies and laws relating to local level administration.

The power of the federal government, through the national council, is restricted to ensuring uniformity of legislation and policy, giving advice and technical assistance and providing a mechanism for co-ordination (Cheema & Hussein, 1978). In this regard, the National Council for Local Government has an authority only for approved policy in terms of administrative control. In addition, the federal government transfer of local authority grants is also made through the state government through this relationship. Beyond the relationship, direct interference by the federal government in the financial affairs of local authorities is impossible (Faruqi, 2001). The following section provides a discussion about the function and sources of finance of local authorities.

## **2.5 FUNCTION AND FINANCE**

The functioning of a local authority is based on the principle of *ultra-vires*, in that it can only undertake an activity and perform its function within specific acts and bylaws. According to Abdullah (2006), there are two key roles of local authorities that impact on the lives of the local community. The first relates to the provision of basic services and the second relates to regulation of the use of land and business activity within the locality. The roles or functions of local authorities are specified in Act 171, which provides local authorities with a comprehensive set of functions and responsibilities. In order to help the authorities to perform their functions under the act, two other laws are also applied – the Town and Country Planning Act 1976 and the Street, Drainage and Building Act 1974. The functions cover the environment, public interests and development. These include both mandatory functions (such as waste collection, provision of street lighting and conduct of activities in relation to public health) and discretionary functions (such as the provision of amenities, maintenance of recreational parks and undertaking of commercial activities) (UNESCAP, 2002). Nowadays, although major services such as town planning, street lighting, and maintenance of local roads still remain with local authorities, the provision of some services has shifted to other agencies of the state and federal governments (for example, management of rivers and water supplies) and to private companies (for example, solid waste and disposal and

sewerage services) (Singaravelloo et al., 2006). The contracting out of services to private companies is one of the NPM initiatives towards achieving greater efficiency in service delivery, whereby the companies are accountable for quality services. Within the contracting out arrangement, local authorities still retain responsibility for monitoring the delivery of the services according to public criteria (Greene, 2002). Given the wide scope of function and responsibility, the source of income or finance of local authorities has become increasingly important, as it determines the efficiency and effectiveness of local authorities' operations.

Sources of income or finance of local authorities include assessment taxes or rates, licences and permits, rentals, grants from the state and federal governments, car parking charges, planning fees, fines and interest and loans (Ministry of Housing and Local Government, [www.kpkt.gov.my](http://www.kpkt.gov.my), accessed on 9 Oct. 2008). Assessment taxes or rates are rates on property in a particular locality, which includes residential and industrial properties. The taxes are collected directly from the property owners on the basis of an annual assessment of the improved value<sup>8</sup> of the holding (Section 130, Act 171). These taxes are the main source of income for local authorities. In the year 2003, assessment tax made up more than 60 percent of total revenue for almost all local authorities (Singaravelloo & Subramaniam 2006) especially for city and municipal councils. Singaravelloo and Subramaniam (2006) state that city and municipal councils have a higher percentage of assessment taxes and smaller percentage of grants than district councils as they have more taxable property holdings including residential houses, commercial and industrial buildings which allow these councils to earn more revenue from the assessment taxes source. District councils are more dependent on government grants. Licence fees are to be paid by applicants applying for licences to carry out trading activities within the authorities' jurisdiction. Rentals are imposed upon users for renting local authorities' properties. Charges are received from consumers for services provided such as fees for burial facilities and charges for refuse collection. Fines and compounds are imposed for offences such as littering and illegal parking. In terms of financial support, ideally (as determined by Act 171) local authorities should be financially autonomous, but due to financial deficiency, they also receive grants from the state government and federal governments (received through the state government).

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<sup>8</sup> Improved value is defined by Act 171 as "the price that an owner willing and not obliged, to sell might reasonably expect to obtain from a willing purchaser with whom he has been bargaining for the sale and purchase of the holding". The Act allows for the option of rental or market value as a basis for rate assessment.

This averaged less than 10 percent of total revenue in the year 2000 (Setapa & Yee, 2003). Another source of finance is loans from the state or federal governments (through the Federal Treasury) and financial institutions which are subject to approval by the state government.

In summary, four sources of income or finance support the operations of local authorities – (1) assessment taxes which are to be paid to local authorities by owners of properties situated in a particular locality; (2) the income (in terms of charges) received by the authorities which is based on services provided; (3) the financial assistance in terms of grants received from the governments to fulfil their obligatory duties such as launching grants for local authorities' restructuring projects, development grants for implementing socioeconomic projects especially towards upgrading services provided and road maintenance and drainage grants; and (4) loans from governments and financial institutions, which are based on a contractual agreement. The accountability relationship between local authorities and the providers of finance for the authorities is discussed in Chapter Four.

## **2.6 CHAPTER SUMMARY**

This chapter is important for understanding the background of the research and the context of Malaysian local authorities. The chapter describes the structure of the authorities, their relationship with both the state and federal governments; and their function and sources of finance. This background is relevant for understanding the accountability of the authorities. The relationship between local authorities and both governments and providers of their finance determines the nature of accountability that exists between them. As Haque (1997, p.3) states, "the modes of accountability of local institutions [also] depend on their organizational nature, structure and composition." The theoretical framework of accountability and accountability of Malaysian local authorities is discussed in Chapter Four. The framework is used to underpin the current research's empirical investigations. The next chapter describes the research methodology or perspective employed by the current research in undertaking the empirical investigations.



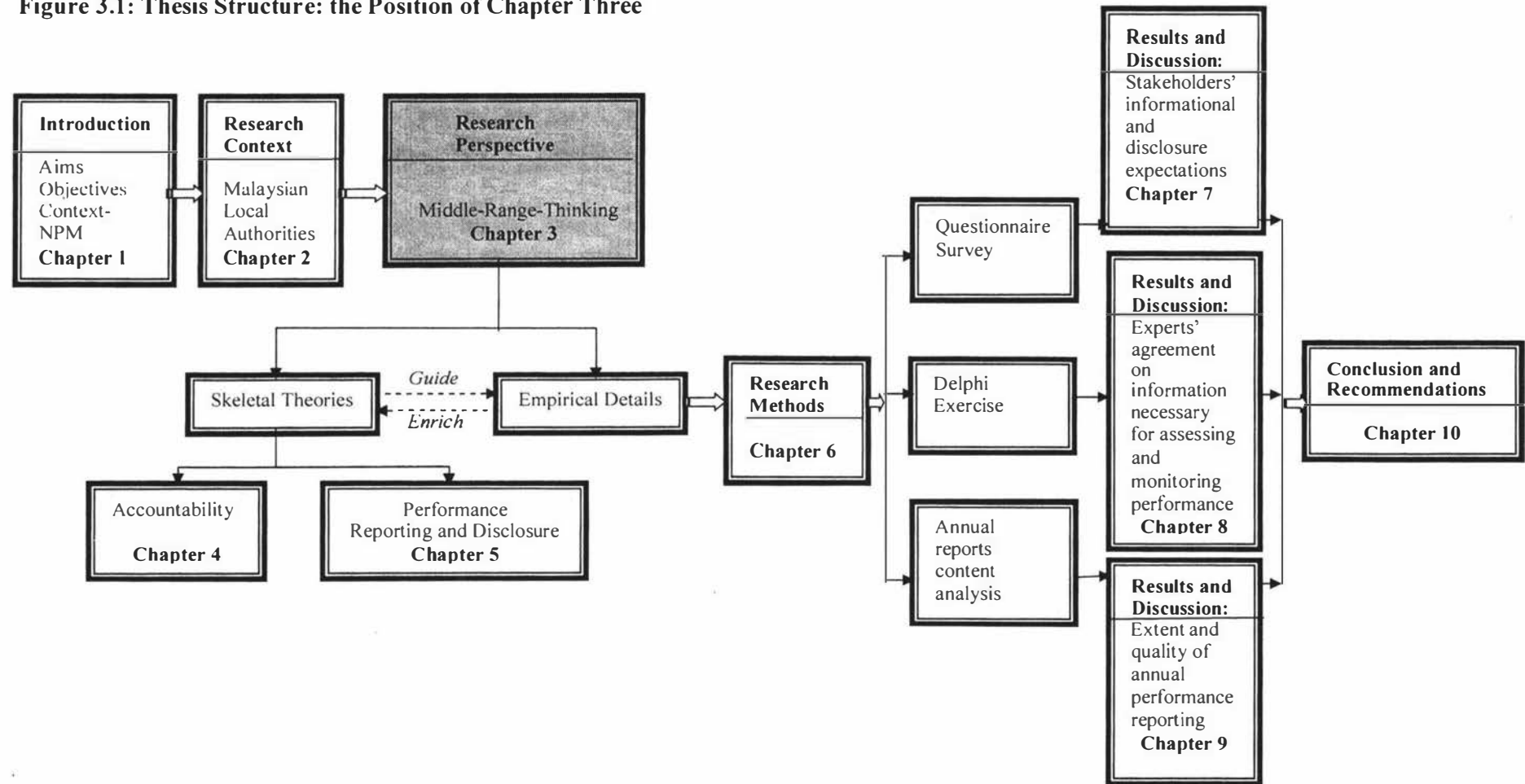
## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter describes the perspective within which the current research is based - middle-range thinking (MRT). This perspective views the world from the middle dimension which acknowledges that reality exists in actuality but only 'skeletal' generalisations about reality are possible. Within this perspective, phenomena can only be explained by 'skeletal' or partial/incomplete theories and empirical details are needed to complete the theories. Specifically, Section 3.2 provides a discussion on MRT, with a particular focus on theory position, methodology position and change position. The application of MRT in the current research is discussed in Section 3.3 with an illustration or flow chart that shows the research process. This chapter concludes with a chapter summary in Section 3.4. Figure 3.1 shows the links between this chapter and the thesis as a whole.

**Figure 3.1: Thesis Structure: the Position of Chapter Three**



### **3.2 THE RESEARCH PERSPECTIVE – MIDDLE-RANGE THINKING (MRT)**

The current research adopts the middle-range thinking (MRT) perspective to research; a philosophical perspective of knowledge as envisioned by Laughlin (1987, 1995a) in understanding the technical and social value of accounting. Specifically, in the context of the current research, the social value is considered through engagement with stakeholders of Malaysian local authorities to gain an understanding of their perceptions of and expectations on the accountability of local authorities. Further, the technical value is considered when the current practices of performance reporting within the annual reports are analysed. Since there are opportunities for researchers to view the world from the middle ground (Hooks, Davey & Coy, 2002), this perspective is an alternative research dimension. It has been introduced to both preserve the strengths and avoid the weaknesses of the positive and interpretive perspectives (Laughlin, 1995a, 1995b), which fall along the objective-subjective array (continuum) of research perspective.

The positive perspective is the traditional perspective of the objective continuum. Within this perspective, the fundamental nature of the phenomena being investigated (ontology) is considered as “realist” ontology (Guba, 1990, p.19); that is, the existence of the social world or reality is already “out there” in the world (Cohen, Manion & Morrison, 2000, p.6; Guba 1990; p.20). It is objective and singular and exists independently of the researcher (Creswell, 1994, Morgan & Smircich, 1980). Therefore, in deriving the knowledge (epistemologically), the researcher is regarded as independent to that research (Creswell, 1994). According to Bisman (2002), as a positive perspective is a highly objectivist view of a single reality, the reality can only be described by measurable practices; the phenomena can be accurately described in terms of theories and generalisations can be made. Methodologically, the positive perspective is commonly aligned with scientific investigation in that it involves quantitative methods of data collection and analysis (Cohen et al., 2000; MacKenzie & Knipe, 2006). Pre-stated questions or hypotheses are empirically tested under controlled conditions (Guba, 1990). Reality is discovered by searches for causal explanations and fundamental laws, hypotheses are tested and the findings can be generalised (Amaratunga, Baldry, Sarshar & Newton, 2002).

While the positive perspective and its scientific method have been proven to be successful, especially in the field of natural science, in the social sciences, the paradigm

is often criticised. Generally, the belief that human behaviour is explained by general laws has not been accepted (Cohen et al., 2000). The assumption is that phenomena is 'controllable' and can be accurately described in terms of theories and generalised. However, when it comes to human actions and interactions, the positive perspective is not concerned with people's thoughts, feelings and behaviour. Human behaviour is regarded as "passive, essentially determined and controlled" (Cohen et al., 2000, p.19). In a social science context, people's feelings, opinions and behaviour cannot be ignored but the positive perspective suggests that human behaviour can be rationalised by scientific explanation. Social scientists believe that positivists fail to give answers about important areas of life (Habermas, 1972). This is a significant weakness of the positive perspective which makes it inappropriate for studying many aspects of the social world.

As a part of the subjective continuum, interpretive perspective views reality as "a projection of individual imagination" (Morgan & Smircich, 1980, p.493) or "the product of individual consciousness" (Cohen et al., 2000, p.5). Therefore, the interpretive perspective involves subjectivity (Guba & Lincoln, 1988). Interpretivists are interested in explaining the social order and seek to understand the subjective experience of individuals (Belkaoui, 1994). Within the epistemological assumption, the interpretivist assumes that there is an interaction between the researcher and what they are researching, and emphasises the importance of understanding the processes of the interaction (Creswell, 1994; Morgan & Smircich, 1980), because knowledge is seen as individual, subjective and unique (Burrell & Morgan, 1979). Therefore, the task of the researcher goes beyond measurement to develop an understanding of phenomena. Methodologically, research within this perspective should be approached from the naturalistic and subjective standpoints, in order to give an account of actual or real circumstances. In general, the interpretive perspective does not begin with theory but rather theory is inductively developed (Creswell, 2003). Researchers mainly rely on qualitative methods which are usually unstructured and context specific, and which provide narrative and interpretational description of phenomena (Holmes, Hodgson & Nevell, 1991; Wiersma, 1995). However, in order to support or expand the qualitative data and deepen the description, quantitative aspects may also be taken into account (Cohen et al., 2000; MacKenzie & Knipe, 2006). Thus, a mixed method approach is used, which provides quantitative information to enrich the qualitative findings. This could overcome the limitations of the positivist paradigm in providing a better understanding of actions and events.

Nevertheless, the interpretive perspective also has its limitations. While generalisations are often considered important in order to shape or improve practice and policy (as in the positive perspective), the interpretive perspective is criticised for its incapacity to make such generalisations (Bisman, 2002). In addition, the interpretive perspective is criticised for neglecting the power of external-structural forces to shape behaviour and events and for putting artificial boundaries around subjects' behaviour (Cohen. et al., 2000).

In summary, both positive and interpretive perspectives each have their strengths and weaknesses and neither perspective actually prescribes nor prohibits the use of either methodological approach (quantitative or qualitative). However, a philosophical research perspective which involves a combined methodological approach may provide a richer understanding than one restricted by a particular methodology. According to Bisman (2002),

Such an approach [a combined methodological approach] would need to recognize the validity of both quantitative and qualitative methodologies, retain scientific rigour, and acknowledge the value of richness and context, as well as the importance of generalizability....the approach would also need to include methods reflecting these alternative views and capture 'empirical' data however defined. (p.8)

Arguably, MRT can provide these features. MRT uses a middle-range combination of theory<sup>9</sup>, methodology<sup>10</sup> and change<sup>11</sup> characteristics in positioning itself (Laughlin 1995a, 2004, 2007).

In relation to theory, MRT recognises that prior generalisations are possible but can only be 'skeletal' theories. Skeletal theories are those that enlighten some prior broad understanding of social phenomena to be investigated (Chua & Witcher, 2005) and are partial and incomplete theories (Laughlin 2004). They cannot stand on their own, but

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<sup>9</sup> "Theory involves deciding on a view about (i) the nature of the world and (ii) what constitutes knowledge and how it relates to the current focus of investigation – referred to as ontology and epistemology respectively in Burrell and Morgan (1979): (Laughlin, 1995a, p.66).

<sup>10</sup> "Methodology involves taking a position on an amalgam of the nature and role of the observer in the discovery process – Burrell and Morgan's human nature assumption; and the level of theoretical formality in defining the nature of the discovery methods – Burrell and Morgan's methodology" (Laughlin, 1995a, p.66).

<sup>11</sup> "Change involves taking a position on whether the investigation is intentionally geared to achieve change in the phenomena being investigated – Burrell and Morgan's society assumption" (Laughlin, 1995a, p.66).

empirical details are needed to complete the theories to make them meaningful (Laughlin, 1995a). In addition, according to Laughlin (2007), the skeletal theories are used to “guide and provide a conceptual language for analysing empirical situations” (p.275) suggesting that the empirical detail is as important as the skeletal theory. Laughlin (2004) holds the view that any empirical phenomena can only be explained by skeletal theories, in that there are structures that underlie social situations and behaviours, but they can be defined neither in generalisable patterns nor totally randomly. This suggests that the MRT perspective contradicts the objectivists’ view which assumes prior theory is complete and relies on a prior definable theory in the discovery of knowledge and that empirical detail is just data for testing the theory, either verifying or falsifying it (Laughlin, 2004, 2007). Further, MRT’s position in relation to theory contrasts the subjectivists’ view in which understanding is context-specific and may require no prior theory as each investigated situation is viewed as “unique” and “separate” (Laughlin, 2007, p.275).

In terms of methodology, MRT preserves subjectivity but sets some limits on how subjectivity can be operationalised in that it does not totally depend on the observer’s judgment and experiences (Laughlin, 2004). The discovery process is flexible and diverse; the nature of methods is definable but is subject to refinement (Laughlin, 1995a, 1995b, 2004). Laughlin (2007) states that methodologically, subjectivity and structured formality are accepted in MRT, in that the role of researcher subjectivity is structured and both qualitative and quantitative methods can be employed.

Central to MRT is its “change position” which is the “level of emphasis given to the critique of the status quo and need for change” (Laughlin 1995b, p.296; Laughlin, 2004). MRT maintains a middle position which allows the possibility of the status quo continuing but considers change possibilities – the possibility to bring about change to the status quo of phenomena. The status quo can be challenged in a constructive way, but change to the status quo is not necessarily required in all situations nor is it an expected outcome (Broadbent & Laughlin, 1997; Laughlin, 1995a, 1995b, 2004). As Laughlin (2004) states:

The argument for a ‘middle position’ is that there needs to be mechanisms to judge when change should be pursued...the ability to judge whether the resulting understanding should lead to change or not and how to make this decision is key to middle range thinking. (p.269)

In contrast, the positive and interpretive perspectives take a low change position which rules out change considerations (Laughlin, 2007). The low change position is represented in the positive perspective by subjectivity avoidance as change is prescribed as subjective. In the interpretive perspective, the low change position is taken because the diverse subjective views make a judgment to change impossible (Laughlin 2004). Laughlin (2004, 2007) emphasises that MRT is not a compromise between the positive and interpretive perspectives nor is it a simplistic assumption of a middle point between the two perspectives, but rather a distinct position in its own, “a genuine third way” of research (Laughlin, 2004, p.270). No specific research approach “has total privilege to claim some ‘absolute’ status – all will only ever provide partial insights into the world” (Laughlin, 2007, p.270). The researcher argues that the main issue for researchers is to have clarity about the research approach used and understand its strengths and weaknesses.

The application of the MRT perspective in the current research is discussed in the following section.

### **3.3 THE APPLICATION OF MRT IN THE RESEARCH**

Within the ontological view of MRT, this research acknowledges that reality exists in actuality but only skeletal generalisations about reality are possible. In this regard, this research maintains that the development of analyses in social settings will always require skeletal theory to be located in an empirical and contextual investigation, in that the theory is complemented by empirical detail. Within the MRT epistemological view, this research examines the phenomena (for example, performance reporting and accountability of Malaysian local authorities) through the eyes of participants rather than completely through those of the researcher. This recognises a subjective interpretation of reality, in that reality can also be understood through human experience.

This research seeks to be descriptive, critical and normative in nature as suggested by Cooper and Sherer (1984). Incorporation of these three aspects provides a broad framework for analysing annual reports and understanding the phenomena. In this

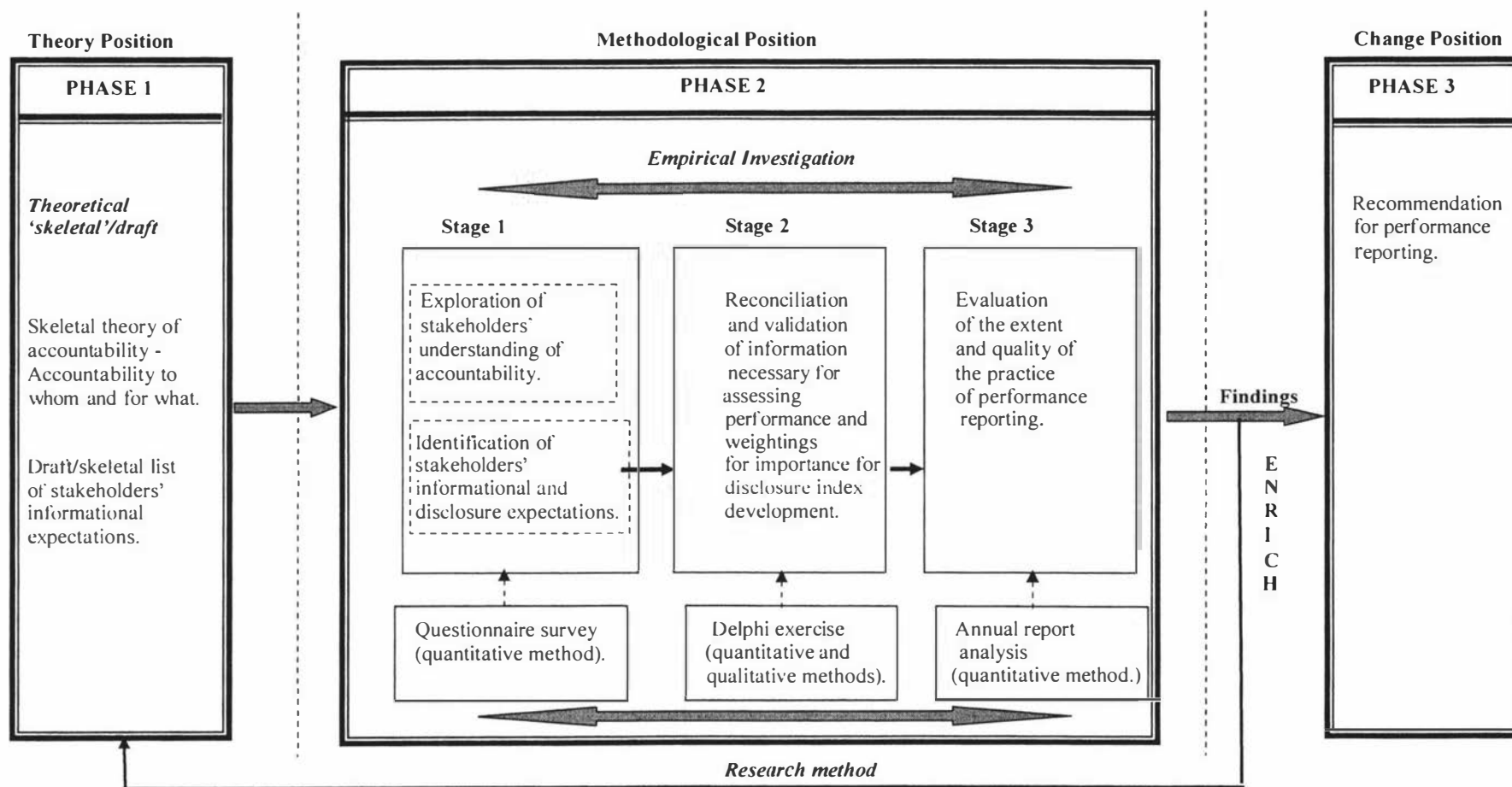
regard, MRT is believed to be appropriate for this research. As emphasised by Laughlin (1995a, p.80), in MRT “[the data should be] heavily descriptive but also analytical”.

The descriptive element of the research involves determining and reporting on the extent of differences and similarities in stakeholders’ informational expectations, the accountability perceptions and characteristics of key stakeholder groups, as well as the extent and quality of performance information disclosure. Critical, as well as analytical elements, involve analysing and reporting informational expectations of stakeholders within the context of accountability. The normative element is reflected in the recommendations for annual reporting including performance reporting as indicated by stakeholders. An MRT perspective provides for these three aspects in the research because it allows flexibility and diversity in the research process, encouraging both the employment of quantitative and qualitative methods to data collection and analysis. Importantly, both methods are incorporated in the research process because of their relevance to the purpose and objectives of the research. The recommendations made for annual reporting, including performance reporting as expected by stakeholders, may provide the impetus for change especially if current practice is found to be inadequate. Therefore, MRT, which has some emphasis on the need for change of the status quo, is seen as consistent with the purpose of this current research and thus appropriate as a methodology.

The application of MRT in this research is shown in Figure 3.2 which outlines the research process. By adopting MRT, the skeletal theory in its incomplete nature provides guidance for examining the empirical situation with the aim of developing understanding. With this in mind, the research process (as shown in Figure 3.2, phase one) commences with the sketching of a theoretical scheme or ‘skeleton’ from the literature review in relation to the accountability – to whom accountability is rendered and for what.



**Figure 3.2: Research Process – Application of Middle-Range Thinking**



Literature outlining stakeholders' or users' information needs, performance annual reporting for the discharge of accountability and disclosure indices provide the basis for, and guidance to, selecting a draft list of potential information items for respondents to assess, for developing a draft disclosure index and for evaluating the current practice of annual performance reporting of one sector of public organisations in a developing country such as Malaysian local authorities. As shown in Figure 3.2, the initial process (phase one) is then followed by empirical investigations at phase two that involve three stages in order to achieve the objectives of the research.

**Objectives one, two and three:**

- To explore the concept of accountability from the perspective of Malaysian stakeholders and the stakeholders' understanding of their relationship with local authorities.
- To identify the type of information that a broad group of stakeholders expect to enable them to assess and monitor the performance of Malaysian local authorities.
- To identify the stakeholders' perceptions of the importance of information items for disclosure.

**Stage one:** Exploring stakeholders' understanding of accountability and identifying the stakeholders' informational expectations to assess and monitor performance of local authorities and their perceptions of the importance of information for disclosure.

**Objectives four and five:**

- To identify experts' perceptions of and agreement on the information necessary for assessing and monitoring the performance of Malaysian local authorities and the importance of such information for disclosure.
- To develop a special purpose disclosure index to assess the extent and quality of performance information published in annual reports of Malaysian local authorities.

**Stage two:** Reconciling and validating the information necessary for assessing and monitoring the performance of local authorities and the relative importance weightings of disclosure of such information.

**Objectives six, seven and eight:**

- To evaluate the extent and quality of disclosure of performance reporting within the annual reports by applying the developed disclosure index.
- To ascertain whether the informational and disclosure expectations of stakeholders are being met.
- To ascertain the extent to which accountability is being discharged through performance reporting.

**Stage three:** Evaluating the extent and quality of the information disclosure.

Finally, as shown at phase three of Figure 3.2, the research process was concluded by providing recommendations for performance reporting of Malaysian local authorities based on the stakeholders' expectations.

The findings obtained from the empirical investigations, in relation to the Malaysian stakeholders' understanding of accountability and their informational expectations, may enrich the skeletal theory developed in phase one in terms of the understanding/knowledge of accountability and stakeholders' informational requirements for accountability purposes in the context of a developing country.

### **3.4 CHAPTER SUMMARY**

The underlying perspective or paradigm to understand phenomena in this study is middle-range thinking (MRT). By adopting MRT, the theoretical frame is not a predictor of relationships but rather a guide to empirical investigations. As MRT allows subjectivity and structured formality, the research process involved both quantitative and qualitative methods. The review of literature was undertaken at the initial phase of the research process to provide a theoretical framework for empirical investigations. The empirical investigations involved a questionnaire survey, a Delphi exercise and a content analysis of annual reports as methods for data collection. These methods are explained in Chapter Six. The next chapter discusses the theoretical framework for the current research.

## **CHAPTER FOUR**

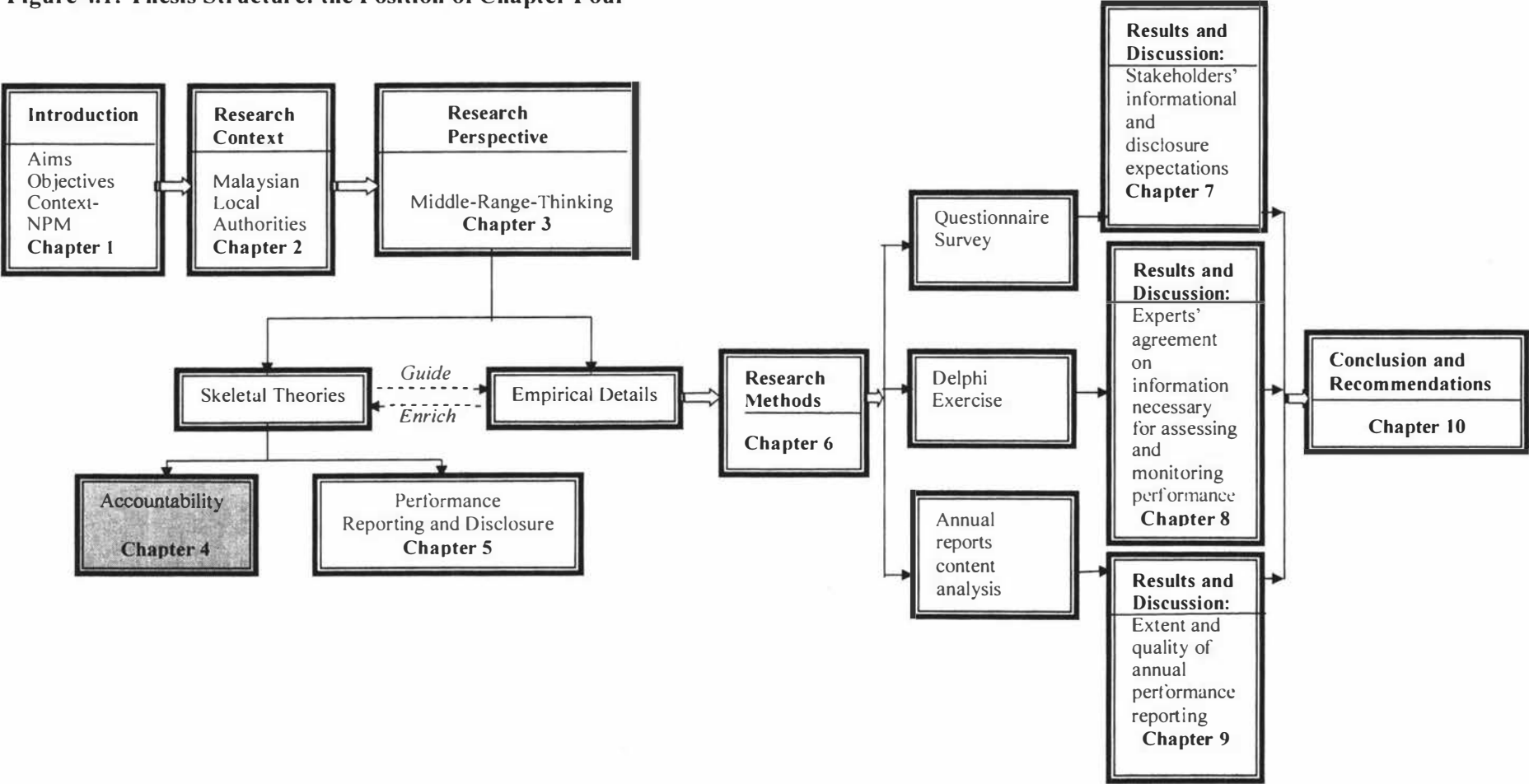
### **THEORETICAL FRAMEWORK OF ACCOUNTABILITY**

#### **4.1 INTRODUCTION**

This chapter provides a theoretical framework of accountability that is used in guiding the empirical investigations undertaken in this research. The framework is developed around the following accountability issues: the meaning and classification of accountability, the nature of the accountability relationship, ‘accountability to whom’, ‘accountability for what’ and the discharge of accountability. The current research seeks to explore the concept of accountability from the perspective of a broad group of stakeholders and thus the above-mentioned issues need to be addressed. In addition, the research identifies the informational expectations of stakeholders in the context of accountability so as to assess whether the informational expectations are being met by Malaysian local authorities. This is done by examining the disclosed information and comparing the analysis with the informational and disclosure expectations of stakeholders.

Following the introduction section, the structure of this chapter is as follows: Section 4.2 discusses accountability in terms of its meaning. Section 4.3 discusses classification of accountability into two dimensions – dimension of relationship and dimension of the scope of account. Section 4.4 discusses ‘accountability to whom’ and Section 4.5 discusses ‘accountability for what’. Accountability within Malaysian local authorities is discussed in Section 4.6. The discharge of accountability with a particular focus on annual report is discussed in Section 4.7. Finally, Section 4.8 presents the chapter summary. The position of this chapter in relation to the thesis is shown in Figure 4.1.

Figure 4.1: Thesis Structure: the Position of Chapter Four



## 4.2 MEANING OF ACCOUNTABILITY

The term accountability is derived from the old French word *comptes à rendre* which means the “rendering of accounts” (Dubnick, 1998, p.68). However, the rendering of accounts has come to be understood differently by different people (Bovens, 2007a), suggesting that accountability is a complex and indefinite term (Day & Klein, 1987; Mulgan, 2000; Sinclair, 1995; Wall & Martin, 2003) and a standardised meaning remains elusive (Budding, 2004; Goddard, 2005; Mulgan, 2000; Mulgan & Uhr, 2000). It has been described in legalistic terms by some (for example, Thynne & Goldring, 1987) and yet cast by others as a rather nebulous concept lacking a clear definition, dependent on the “ideologies, motifs and language” of the time and with “discipline-specific meanings” (Sinclair, 1995, p.221).

Accountability is more than responsibility (Parker & Gould, 1999). It is backward-looking, inquiring into actions that have already taken place (Mulgan, 2000) and has the additional requirement of evaluating the performance (Hoskin, 1996). Accountability may encourage responsiveness but is different from responsiveness, in that it requires a justification of conduct (Mulgan, 2003). Accountability is not the same as transparency given that transparency does not constitute a real form of accountability (Fisher, 2004), but transparency is an important requirement for accountability (Bovens, 2007a).

Despite its complex, variable and contestable meaning (Bovens, 2007a), accountability has been widely referred to as the ‘giving and demanding of reasons for conduct’ (for example, Bovens, 2007a; Day & Klien, 1987; Pollitt, 2003; Robert & Scapens, 1985; Romzek & Dubnick, 1998) in which people are required to explain and take responsibility for their actions (Roberts & Scapens, 1985). Specifically, accountability is about an obligation: the person or organisation entrusted with the responsibility (the accountor) is obliged to explain and justify their conduct to the person or organisation who assigned the responsibility (the accountee) (Day & Klien, 1987; Gray & Jenkins, 1993). In this regard, the accountees are given certain ‘rights’ to request explanations (Goddard, 2005).

The obligations for explaining and justifying are met when the accountor provides the accountee with information on the accountor’s actions and/or conduct. This includes information on activities, processes, output, outcomes or performance – both financial

and overall performance (Laughlin, 1990; Patton, 1992; Shende & Bennett, 2004). Subsequently, the accountee has an opportunity to ask further questions about the information provided (Bovens 2007a). The informing aspect implies one way transmission, or communication of information from the accountant to the accountee. The informing aspect also indicates transparency in reporting which is important to enhance accountability as control purpose (Aucoin & Hientzman, 2000). Explanation and justification of such information indicates answerability (Brinkerhoff, 2001), which is the essence of accountability.

In addition to the aspects of informing, explaining and justifying, accountability also requires the possibility of sanctions, where an accountee has the right to deliver judgement (Bovens 2007a; Mulgan, 2000) by imposing formal or informal sanctions (for example, disciplinary measures or negative publicity) if the actions of, and answers by, the accountant are unsatisfactory to the accountee (Bovens 2007a; Keohane, 2003). Judgement or assessment of performance is important to stimulate improvements in policy, organisations and management (Aucoin & Hientzman, 2000). According to Aucoin and Hientzman, the aspect of judgement or assessment of performance highlights the purpose of accountability as continuous improvement.

The current research attempts to make the concept of accountability more defined for the purpose of empirical analysis. As Reed (2004) argues, “the precise meaning [of accountability] depends on implementation variables within specific contexts which change over time” (p.1). For the purpose of this research, accountability is referred to as an obligation to render an account where one party (the accountant) is accountable to another (the accountee), in that the accountant must account for his/her conduct or actions. This requires not only a report but also an explanation and justification of conduct/actions by the accountant to the accountee, who has the right to obtain the information for evaluation purposes. Explanation and justification of actions taken implies a literal accounting/reporting function (Patton, 1992). The current research’s definition of accountability is related to the two aspects that encompass the core meaning of accountability as discussed earlier – communication of information and answerability (which involves explanation and justification). Although judgement has also been recognised as one of the core meanings of accountability, it is not the focus of this research. This is because the aspects of communication of information and answerability are the components of accounting and reporting (the concern of the

current research), while judgment (which has the possibility of a sanction) does not have an accounting interpretation (Van Peursem, 1992). In addition, given the fact that accountability is a multifaceted concept, the current research also recognises that there are various classifications of accountability. These are discussed in the following section.

### 4.3 CLASSIFICATION OF ACCOUNTABILITY

A broad range of accountability classifications have been identified in the literature. However, the classifications that are relevant to the current research can be divided into two dimensions – first, on the basis of the relationship between accountor and accountee, and second, on the basis of the scope of account. The accountability classifications under these two dimensions are shown in Table 4.1.

**Table 4.1: Accountability Classification**

Accountability Classifications	Prior Studies
<i>Dimension of relationship:</i>	
Hierarchical/political/vertical accountability	Bovens (2007b); Brinkerhoff (2001); Romzek (2000); Sinclair (1995);
Public/social accountability	Bovens (2007b); Sinclair (1995)
Legal/administrative/diagonal accountability	Bovens (2007b); Romzek (2000)
Horizontal accountability	Bovens (2007b)
<i>Dimension of the scope of account:</i>	
Accountability for probity and legality/financial accountability or code	Bovens (2007b); Brinkerhoff (2001); Gray & Jenkins (1993); Stewart (1984)
Process/procedural accountability	Bovens (2007b); Stewart (1984)
Performance and programme/managerial accountability or code	Brinkerhoff (2001); Gray & Jenkins (1993); Sinclair (1995); Stewart (1984)
Policy accountability	Stewart (1984)

#### 4.3.1 Dimension of Relationship

As shown in Table 4.1, the classifications that concern the parties involved in the accountability relationship include hierarchical, public, legal and horizontal accountability. Accountability is classified as hierarchical if it involves a supervisor–subordinate relationship where the supervisors closely supervise and control the subordinates (Bovens, 2007b; Romzek, 2000). Parties involved in this classification of



accountability include the minister, the president, the commander-in-chief, and head of department or manager (Romzek, 2000).

While hierarchical accountability is based on the superior–subordinate relationship, political accountability is based on the chain of principal–agent (Romzek, 2000). Public servants and their organisations as agents, who have been delegated authority by the cabinet ministers, are accountable to the ministers who must render political account to parliament. Parliament, through the people’s representatives, is accountable to the electorates (the ultimate principal). As shown in Table 4.1, political accountability is also proposed by Bovens (2007b); Brinkerhoff (2001) and Sinclair (1995). Vertical accountability can also be incorporated into the hierarchical/political classification. As proposed by Bovens (2007b), it is normally due to hierarchical accountability or a principal–agent relationship between the accountant and accountee and involves formal authority or contractual agreement requiring the accountant to give an account. Direct accountability to the public at large (not limited to the electorates) and to interested parties is classified as public accountability. This is seen as a sub-set of political accountability. It involves the relationship between the accountant and the groups concerned with the action of the accountant (Sinclair, 1995). In this respect, public accountability is similar to what Bovens (2007b) refers to as social accountability.

Legal accountability involves accountability to external oversight with established mandates such as “legislation and constitutional structures” (Romzek, 2000, p.25). Such oversight in the form of financial and performance audits is conducted by the auditor general. According to Romzek (2000), this accountability classification may also involve external investigation and monitoring where, for example, a special commission is set up to carry out inquiry and investigation on certain cases that attract public interest. Legal accountability is usually based on specific responsibilities and detailed legal standards (Bovens, 2007b). Although Bovens (2007b) relates legal accountability only to the involvement of legal bodies such as courts, the legal accountability classification as defined by Romzek (2000) is more flexible and may include the involvement of external supervisory/control bodies such as auditors, courts and parliamentary special commissions. Accountability to external supervisory or oversight bodies is referred to in Bovens’s (2007b) study as administrative accountability and can therefore be incorporated into Romzek’s (2000) legal accountability classification. Diagonal accountability (Bovens, 2007b), which involves the relationship between the

accountor and a supervisory authority can also be incorporated into the legal accountability classification.

In horizontal accountability, a hierarchical or a principal–agent relationship between the accountor and the accountee is generally lacking. It does not involve any formal obligations or contractual agreements to render an account: the rendering of account to the accountee is on a voluntary basis.

The nature of the accountability relationship in a public sector organisation within these classifications can be of a formal or informal nature. The nature is formal when it is authorised or legally/contractually defined (Hayllar, 2000). In this relationship, the accountor and the accountee understand and accept the requirement to report, and the right to sanction (Keohane, 2003). This is similar to Stewart's (1984) 'bond of accountability' relationship. The bond of accountability recognises the responsibility of one party to another and being able to hold to account is the essence of an accountability relationship. In this accountability relationship structure, a contractual agreement is often necessary to hold the accountor to account.

The accountability relationship is considered informal when it is based on "a sense of moral obligation" or "social norms" (Hayllar, 2000, p.68). In this accountability relationship, there is no authority for the accountee to influence the accountor's discretions, for example, the accountee has no power to punish the accountor if the accountor chooses not to provide an account. This is similar to Stewart's (1984) 'link of accountability' relationship, which only involves an informal recognition of responsiveness. The link of accountability may also be referred to as a weaker type of 'responsive accountability' in which the accountee has no particular rights to information, and depends on the willingness of the accountor to take their views into account (Hayllar, 2000). Although not of the same order as a bond of accountability, a link of accountability plays an important role in supporting accountability and can in itself induce change and improvement. Both bonds and links of accountability are expected to be evidenced in the Malaysian setting. This is discussed in Section 4.6.

In this regard, hierarchical and legal accountability can be regarded as a bond of accountability relationship as they involve a formal contract between the accountor and the accountee. Public accountability can be seen as either a bond or link of

accountability relationship depending on whether or not there is a formal contract between the two parties. Horizontal accountability, as it does not involve a formal agreement or contract, is obviously a link of accountability relationship.

#### **4.3.2 Dimension of the Scope of Account**

The dimension of the scope of account is concerned with what the accountor is accountable for. As shown in Table 4.1, four main accountability classifications are categorised under this dimension.

According to Stewart (1984), accountability for probity and legality (accountability by standards) concerns the account for an appropriate use of funds or financial resources in accordance with rules and regulations. This is referred to by Gray and Jenkin's (1993) as the financial code. Combining legal and economic rationalities (as identified by Diesing, 1962), the financial code embodies rules of authorisation and appropriation. A financial code of accountability has also been suggested in Bovens's (2007b) and Brinkerhoff's (2001) studies.

Process accountability, also referred to by Stewart (1984) as accountability by standards, relates to the account for the details of processes. This is similar to Boven's (2007b) classification of procedural accountability.

Performance and programme accountability accounts for total work performance in achieving specific goals, concentrates on results and is accountability by standards and judgement (Stewart, 1984). This classification of accountability is referred to in Gray and Jenkins's (1993) study as the managerial code. The managerial code brings together aspects of legal, economic and technical rationalities, in that the code relies on rules, but the rules are dependent on technical and economic rationalities. This classification of accountability is also found in Sinclair (1995) and Brinkerhoff (2001, p.6) who refer to it as performance accountability and relate it to "the production of outputs, delivery of services, accomplishment of objectives and/or achievement of results and impacts." Policy accountability involves a rendering of account on broad policy in relation to goals. This is classified by Stewart (1984) as the accountability by judgement, the highest in Stewart's (1984) ladder of accountability.

The classifications of accountability under the two dimensions are expected to be evidenced in the context of Malaysian local authorities. For the purpose of this research – to investigate performance reporting practices and accountability of Malaysian local authorities, which is undertaken within the context of NPM - the classifications of public accountability and performance are the focus.

It is apparent from Table 4.1 that the accountability classifications relevant to this research revolve around the issues of ‘accountability to whom’ and ‘accountability for what’.

#### **4.4 ACCOUNTABILITY TO WHOM?**

At its core, accountability is about a relationship between the accountant and the accountee, which requires the accountant to be accountable to the accountee. The accountant is the one who accounts and is held to account and the accountee is the one who holds to account (Stewart, 1984) and may include a specific person or an agency that has certain rights to make demands for reasons for the conduct of the accountant (Gray, Owen & Maunders, 1987).

The accountee in a public sector organisation may be identified based on the factors that indicate an accountability relationship – authorisation, support and impact factors (Keohane, 2003). According to Keohane (2003), the accountees are those who have the power of authorisation, those who are the providers of financial and/or political support, and those who may be impacted by the decisions or actions of the acting and reporting party. These can be categorised into (i) the social accountee category which includes citizens, beneficiaries of public sector services and interest groups; (ii) the political accountee category which includes the ministers, voters and elected council members; and (iii) the legal accountee category which includes independent or external supervisory entities (Bovens, 2007b; Brinkerhoff, 2001). Tower (1993) refers to accountee groups as an organisation’s stakeholders, who have a right to information concerning the organisation. They are those who have an identifiable relationship based on a contractual relationship with the organisation (ASSC, 1975; Boyne, Williams, Law & Walker, 2002; Freeman, 1984). The stakeholders concerned may include resource providers (for example, employees, creditors, tax/rate payers, federal or state governments), recipients of goods and services (for example, clients, tax/rate payers)

and oversight bodies (such as auditors) (Mulgan, 1997). Further, Mulgan (2004) concludes that stakeholders are also those with different values and interests to the organisation – the social, economic and political interests (Coy et al., 2001).

In this current research, the accountor is the Malaysian local authority as an agency and the accountees are those with social, economic, political and legal interests in an organisation, who have the power of authorisation, provide financial or/and political support; and/or may be impacted by or may affect the organisation. These represent a broad group of accountees, who can be seen as relevant stakeholders of a public sector organisation. This is consistent with the notion of NPM, in that the scope of 'accountability to whom' has widened from the traditional, which concentrated on the responsibility of ministers to parliament and public servants to their immediate superiors (Parker, 1980), to include a broad group of stakeholders (Boyne et al., 2002; Parker & Guthrie, 1993). Under NPM, the need to enhance accountability to the broad stakeholder groups, both within an organisation and from the organisation to its external stakeholders, has been emphasised (Boyne et al., 2002) and is important to achieve an effective accountability (Hayllar, 2000).

Within this framework of accountees and based on the background of Malaysian local authorities discussed in Chapter Two, the accountees (stakeholders) of the Malaysian local authorities are identified. This is discussed in Section 4.6.

#### **4.5 ACCOUNTABILITY FOR WHAT?**

'Accountability for what' is related to the accountor's scope of accountability. The interpretative frames that define each accountor's scope of accountability may be based on five rationalities identified by Diesing (1962) – legal, economic, technical, social and political. Legal rationality sets out the fundamental rules that are used by societies in promoting order, assigning responsibility, regulating differences, and containing conflict. Economic rationality specifies the economic calculus by which alternative ends and/or means are compared and is clearly related to technical rationality, which outlines the expert/knowledge-based criteria by which means are selected in relation to ends. Social rationality sets out conditions which have to be met if social integration is to be maintained. In turn, it is related to political rationality, which stipulates the pragmatic

requirements for sustaining the integration of decision-making structures and processes (Degeling, Anderson & Guthrie, 1996). Table 4.2 specifies the ‘accountability for what’ which is framed by these rationalities.

**Table 4.2: The Scope of Account and Rationalities**

<b>Accountability Classifications on the Basis of the Scope of Account</b>	<b>The Scope of Account (Accountability for What)</b>	<b>Rationalities</b>
Accountability for probity and legality/financial accountability	For probity, adequacy of internal controls, economic and efficient use of financial resources.	Legal and economic
Process/procedural accountability	For appropriate and effective <u>processing procedures</u>	Legal and technical
Policy accountability	For the achievement of organisational goals in order to evaluate the effectiveness of <u>policy</u> .	Political and social
Performance and programme accountability/managerial accountability	For consistent and efficient actions, decisions and costs, and effectiveness and quality of services.	Legal, economic and technical

Source: Diesing (1962); Gray & Jenkins (1993); Stewart (1984); Sinclair (1995); Bovens (2007b); Brinkerhoff (2001); Degeling et al. (1996)

As shown in Table 4.2, accountability for probity and legality/financial accountability combine legal and economic rationalities and emphasise the accountability of the individual for probity, the adequacy of internal controls, and accountability for the economic and efficient use of financial resources. Process/procedural accountability appears to draw on the combination of legal and technical rationalities, in that it relies on rules and technical aspects and relates to the accountant’s accountability for following appropriate and effective processing procedures in producing outputs and delivering services. The focus of the scopes of accountability on rules and regulations or fiscal compliance, stewardship and probity has been recognised as the traditional focus of what is the account to be rendered. This is because, traditionally, public sector organisations and their officials were responsible for ensuring that the regulations and procedures were adhered to and budget expenditure limits were not transgressed (Parker & Guthrie, 1993). The political and social rationalities appear to have an influence on policy accountability, which is concerned with the achievement of an organisation’s goals and comparison between achievements and expectations for evaluating the effectiveness of the policy. With recent moves towards new approaches such as NPM in

the public sector, the traditional focus of accountability is inadequate because a greater emphasis is placed on accounting for results or performance (Hood, 1995), where the public sector entities, including local government/authorities, are required to specify their outputs and link outputs with outcomes (Ryan & Walsh, 2004). In addition, as stated by Renstcheler and Potter (1996), the traditional focus is inadequate as the issues of effectiveness and quality of services are ignored. Therefore, in the NPM era, 'accountability for what' has extended beyond the traditional focus of accountability to include performance or managerial accountability (Hood, 1991; Parker & Guthrie, 1993).

As also shown in Table 4.2, the performance and programme/managerial accountability combines legal, economic and technical rationalities in that it relies on rules, but the rules are dependent on technical and economic rationalities. However, in contrast to the financial classification of accountability, it emphasises the accountant's accountability for organisational integration, for regularity and consistency in service provision and for economy and efficiency. Thus, the allocation of responsibility for actions, decisions, and costs is an inherent feature of this accountability. With this accountability focus, public managers are obliged to report on their performance, giving an account of what has been done, what is being done and what is going to be done, all in a transparent manner (Farneti & Bestebreuer, 2004).

The current research is set within the context of NPM, and therefore, the extended scope of 'accountability for what' which emphasises performance is the focus of the research. Although the current research recognises the importance of this scope of accountability, other scopes have not been ignored. This is because performance accountability and the scope of account are seen as being related. In order to provide efficient, effective and high quality services, financial resources are important. A proper and efficient use of financial resources is necessary for financial accountability. In order to carry out the services in an economic, efficient and effective way, appropriate and effective procedures are important and this involves process/procedural accountability. Finally, performance accountability is also related to policy accountability as performance achievement is associated with the achievement of organisational goals and the effectiveness of policy. These scopes of account with a particular focus on performance accountability and the discharge of such accountability are examined in this research.

The following section provides a discussion on accountability within the context of Malaysian local authorities. It identifies the accountees or stakeholders of the local authorities, the nature of the accountability relationship and the scope of the account that the authorities are accountable for. This is important as the objectives of this research involve an identification of Malaysian local authorities' stakeholders' understanding of the concept of accountability and their relationship with local authorities. In addition, the objectives of the research also involve identifying the stakeholders' informational expectations for assessing and monitoring the performance of local authorities and their perceptions of the importance of information for disclosure. To achieve this aim the stakeholders need to be identified as does the accountability relationship and the scope of account of local authorities. In this research, the discharge of scope of account of local authorities with a particular focus on performance accountability is examined.

#### **4.6 ACCOUNTABILITY WITHIN MALAYSIAN LOCAL AUTHORITIES**

Within the general framework of accountees or stakeholders, the nature of the accountability relationship and the scope of account and based on the background of Malaysian local authorities (discussed in Chapter Two), the accountees (stakeholders) and the nature of the accountability relationship within the local authorities are identified.

##### **4.6.1 Accountees (Stakeholders) of Malaysian Local Authorities**

As discussed in Chapter Two, local authorities within each state in Malaysia are under the jurisdiction of the respective state government. The state governments have a legislative power to control the affairs of the local authorities as stipulated in the Malaysian Local Government Act 1976 (Act 171, Section 9<sup>12</sup>). The governments, through their mayor or president, authorise the local authorities to act on their behalf for the operation of certain tasks and responsibilities consistent with the mandates given by

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<sup>12</sup> Section 9 of Act 171 empowers the state authority to issue directions of a general character to a local authority on the policy to be followed in the exercise of the powers conferred and the duties imposed on the local authority by or under this Act in relation to matters which appear to the state authority to affect the interests of the local authority area.



the electorates of the state government. In addition, the local authorities accept the transfer of resources in terms of annual grants and responsibilities from their respective state governments. Thus, the accountability relationship between the local authorities and the state governments is justified by the factors of authorisation and financial support. This is also consistent theoretically with Laughlin (1990) who suggests that the accountability relationship is established when there is a transfer of resources and responsibilities from the principal (the state government) to the agent (the local authority).

While the relationships between local authorities and the state governments are direct, the authorities do not have a direct relationship with the federal government. As discussed in Chapter Two, the federal government, through the Ministry of Local Government, deals with local authorities only in terms of advice on policies and legal matters and transfer of grants for development projects in the locality through the state governments. As stipulated in the Federal Constitution (Article 95A), the federal government, through the state governments, supervises or monitors the local authorities in relation to policy matters to ensure that the conduct or actions of local authorities is consistent with the national policies. Therefore, both the state and federal governments are the accountees or stakeholders of the local authorities with political and economic interests. While the state governments have a direct power of authorisation and directly provide financial support, the federal government only has an indirect power of authorisation and indirectly provides financial support. Based on the accountability classifications discussed in Section 4.3, the accountability between local authorities and the government relates to hierarchical or political accountability.

Within the context of Malaysian local authorities, the public, which includes tax/rate payers and service consumers, provides financial support mainly through assessment taxes/rates and charges, for the authorities to carry out their functions. These groups may also be impacted by the decisions and actions of the authorities. With the current system of the local authorities' administration, there is no group of public as voters. This is significantly different from the local government of other international jurisdictions that operate an electoral system in the election of mayors and councillors, where the public group may also be classified as voters who provide political support. The voters, as the accountees, have a legitimate right to hold the accountor accountable. Therefore, the public within the context of Malaysian local authorities can only be classified as the accountees or stakeholders with economic and social interests.

There are a number of interest groups involved within the context of Malaysian local authorities. These groups may include the media or non-governmental organisations (NGOs) (for example, a traders' or citizens' association). They do not provide financial support but they may be impacted on by the decisions and actions of the authorities. Interest groups such as the media may also affect local authorities and their officials by publicly reporting their actions or conduct. Therefore, based on the impact factor, the interest groups are the accountees or stakeholders with a social interest in the local authorities. The accountability between local authorities and the public and interest groups is clearly a public or social accountability as discussed in the earlier section.

Other parties that also provide financial support to local authorities include the group of creditors that comprise suppliers and lenders. They may also be impacted by the decisions or actions of the authorities, especially in relation to financial decisions. Therefore, creditors are classified as the accountees or stakeholders who have an economic interest in the local authorities. The accountability of local authorities to the creditors can be classified as vertical accountability, although it does not involve hierarchy. However, this accountability relationship is normally based on a contractual agreement.

The auditor general in the relationship with local authorities acts as an oversight body. Parliament authorises the auditor general to monitor/supervise or control the conduct or actions of the authorities and their officials to ensure that the local authorities comply with rules and regulations. The auditor general is responsible for providing an annual report to the King and presenting the report in the parliament of the federal government. The auditor general's report of each state government (which includes the report on local authorities of the state) is also provided to the state government to be presented in the state assembly (Othman, 2001). Although the local authorities do not have direct accountability to the auditor, they are required to respond to any concerns raised by the auditor. Consistent with Bovens (2007a, 2007b) the auditor general is classified as a legal accountee. The auditor general is considered the accountee or stakeholder with a legal interest and with an indirect power of authorisation to ensure that the accountability of the local authorities is improved. Based on the earlier discussion on accountability classifications, the accountability relationship between local authorities and the auditor general can be referred to as legal, administrative or diagonal accountability.

Other parties also related to local authorities include other government agencies, for example the Department of Environment or the Department of Works. Local authorities may discuss environmental management programmes with the Department of Environment and infrastructure development with the Department of Works. These public entities may affect the decisions and actions of the local authorities and are therefore also identified as the accountees or stakeholders of local authorities. This kind of accountability can be classified as horizontal accountability.

Within the local authorities, the parties involved include other employees or supporting personnel, the heads of departments (the management) and a panel of councillors. As discussed in Chapter Two, other employees are directly accountable to the management. The heads of departments are accountable to the mayor/president who is then accountable to the panel of councillors. The panel of councillors (which is chaired by the mayor/president) is directly accountable to the state government. These accountability relationships are hierarchical and justified by the factor of authorisation. Therefore, the councillors and the heads of departments are the accountees or stakeholders who have an economic interest in local authorities. In addition to an economic interest, the councillors, who are usually politicians from the state ruling party, may also have a political interest in the authorities. Further, the establishment of the accountability relationship between a local authority, through its mayor or president, and its employees (the management and other employees), may be justified by the impact factor. The employees may be impacted by the decisions and actions of the local authority as an employer such as decisions related to salary and other financial benefits. This indicates that employees have an economic interest in local authorities. Therefore, they are also the accountees or stakeholders of local authorities.

The accountees or stakeholders of local authorities that were identified are summarised in Table 4.3. Consistent with Boyne et al. (2002), Flack and Ryan (2004) and Steccolini (2004), the accountees who are outside the local authorities are classified in this research as external stakeholders and those who are within the local authorities are the internal stakeholders.

**Table 4.3: The Accountees (Stakeholders) of Malaysian Local Authorities**

Accountees	Justification for the Occurrence	Interest
<i>Outside the local authorities (external stakeholders)</i>		
State governments	Authorisation Financial support	Political and economic
Federal government	Authorisation Financial support	Political and economic
Auditor general	Authorisation	Legal
Public as tax/rate payers	Financial support and impact	Economic and social
Public as service consumers	Financial support and impact	Economic and social
Creditors (lenders/suppliers)	Financial support and impact	Economic
Interest groups (e.g. media, citizen's association, trader's association and other government entities)	Impact	Social
Other government agencies	Impact	Social
<i>Within the local authorities (internal stakeholders)</i>		
Panel of councillors	Authorisation	Political and economic
Management (head of departments)	Authorisation and impact	Economic
Other employees	Impact	Economic

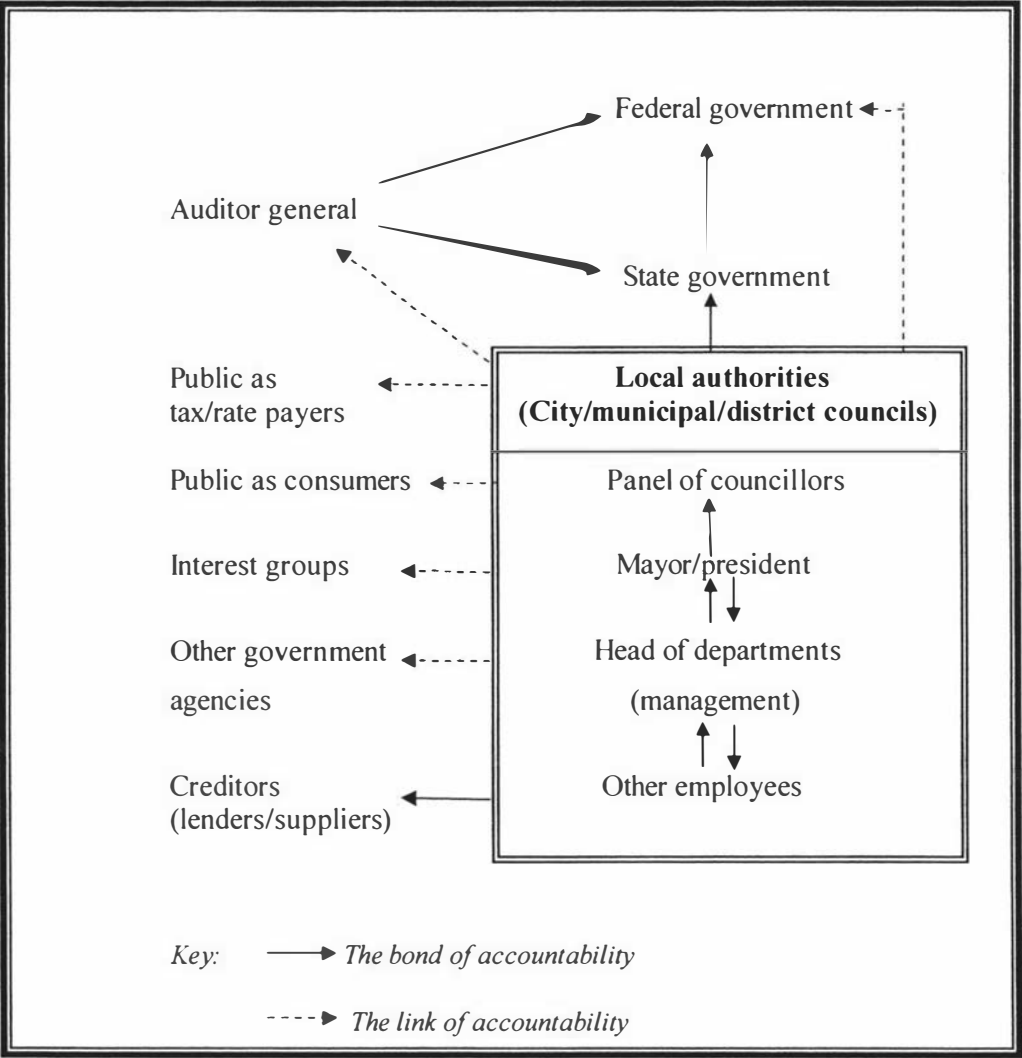
The current research takes into account views from samples of all stakeholders of the local authorities as shown in Table 4.3 (except for other government agencies). Samples of the groups or representatives of the state governments, the public, creditors, the management, and other employees are involved in the first stage of the research process (the questionnaire survey). The expert representatives of these groups as well as of the federal government, the auditor general and the citizen's association (representing the interest group) are involved in the second stage of the research process (Delphi exercise). This is discussed in Chapter Six. Having specified the stakeholders or accountees, the nature of the accountability relationship between the local authorities and their stakeholders is discussed in the following section.

**4.6.2 The Nature of Accountability Relationships within Malaysian Local Authorities**

Figure 4.2 shows the nature of the accountability relationship between Malaysian local authorities and their accountees or stakeholders as identified in Section 4.6.1. This relationship involves both the formal nature (the bond of accountability) and the informal nature (the link of accountability).

As shown in Figure 4.2, the formal nature of the accountability relationship, or Stewart's (1984) bond of accountability, in the context of Malaysian local authorities is apparent between both the local authorities and the accountees outside the authorities – the state government and creditors – and between the authorities and their employees (the head of departments/management and other employees). As discussed in the earlier section, the accountability relationship between local authorities and the state governments is stipulated in Section 9 of Act 171 and therefore the relationship is legally defined.

**Figure 4.2: The Nature of the Accountability Relationship between Malaysian Local Authorities and Their Accountees/Stakeholders**



Source: Ryan, Dunstan & Brown 2002; Stewart, 1984

The accountability relationship between the authorities and their creditors is classified as one of a formal nature as it involves a contractual agreement that sets out the responsibility of one party to another in respect of resources supplied or consumed. Therefore, through the mayor/president, the local authorities are directly and legally accountable to the creditors. Within the local authorities, the formal nature of the accountability relationship occurs between the authorities and the employees comprising the head of departments/management and other employees. Contracts relating to conditions of employment create responsibilities and expectations for both the local authority, through the mayor/president (as the employer), and its employees which gives rise to a formal nature (the bond) of the accountability relationship.

On the other hand, as shown in Figure 4.2, the accountability relationships between the local authorities and the federal government, between the authorities and the auditor general, and between the authorities and the public, the interest groups and other government agencies are informal in nature (the link of accountability). As discussed in Section 4.6.1, the federal government deals with local authorities indirectly through the state governments and that is why the relationship is considered to be of an informal nature.

In respect of the relationship between the authorities and the public, the interest groups and other government agencies, there is a limitation in terms of the ability of the public and the interest groups to impose direct sanctions (for example via election) against the authorities' key officials. Section 142 of Act 171 only provides that "citizens who are dissatisfied with the authority's performance have a right to make objections in writing and are allowed an opportunity of being heard at the consequent enquiry". The public can make a direct submission to the local authority concerned, to the Public Complaint Bureau of the Prime Minister's Department, or they can make public objections/complaints via the media. The Bureau may then review the case and if necessary bring its findings to the attention of the relevant state government to take further action. Although the interest groups or other government agencies may impact the local authorities and their officials there is no statutory provision for any interest groups to hold the local authorities accountable. Within this regime, the public, the interest groups and other government agencies have no opportunity to directly hold local authorities to account; rather, any sanctions are imposed through a higher authority such as the state government. In the absence of the capacity for power, the accountability

relationship between the local authority and the broader public is therefore only in the form of an informal structure, which recognises an informal “recognition of responsiveness” by local authorities (Stewart, 1984, p.25).

The informal nature of the accountability relationship between the authorities and the auditor general exists because the auditor does not have the power of sanction over the conduct of the audited – the local authorities. The authorities are only required to respond to any concerns raised by the auditor. Therefore the ‘responsiveness’ of the authorities to the auditor indicates the existence of only an informal nature of accountability relationship. The formal or the bond of accountability relationship only occurs between the auditor general and the state and federal governments.

#### **4.6.3 The Scope of Account of Malaysian Local Authorities**

With regard to the state governments as the accountee or stakeholder, local authorities are required to keep proper records and books of account, as a result of the transfer of resources in terms of annual grants and responsibilities by the state governments (Section 53, Act 171). In this respect, local authorities are accountable to the state governments for their performance in managing the responsibilities and resources entrusted to them. Furthermore, the authorities are required to furnish all relevant accounts and other information on their property and activities to the state authority (Section 9, Act 171). This indicates that the state authority requires appropriate information about the range of local authority activities and related performance in which people are interested. In particular, the state authority needs information about the results or outcomes of local authority activities in order to be able to fulfil its responsibilities as an elected government. Based on the statutory provision, the authorities are accountable to their respective state government for fiscal compliance (i.e. accountability for probity and legality/financial accountability), for appropriate procedures (i.e. process accountability) and for the efficiency and the effectiveness of the programmes/services undertaken (i.e. accountability for programme and performance/managerial accountability). In addition to these scopes of accountability, the scope of policy may also be involved in the accountability relationship between the local authorities and their respective state government. This is because the authorities are accountable to the state government for the achievement of the goals that are consistent with the government policies.

Similarly, policy accountability may also be involved in the relationship between the authority and the federal government. As stipulated in Article 5A of the Federal Constitution of Malaysia, the federal government, through the Ministry of Housing and Local Government, provides advice to and coordination of local authorities in matters especially related to legal and major policy issues. In addition, since the federal government also provides annual grants for the local authorities through their respective state governments, the authorities are indirectly accountable to the federal government for the proper use of the financial resources in accordance with rules and regulations. Thus financial and process accountability are involved.

Also consistent with the scope of account ('accountability for what') framework, the relationship between the Malaysian local authorities and the auditor general may involve accountability for fiscal compliance (accountability for probity and legality/financial accountability) and for the exercise of appropriate procedures (process accountability). The auditor general is authorised by the federal government to monitor the authorities' use of funds or financial resources in accordance with rules and regulations. In addition, the auditor is also authorised by the government to carry out a performance audit on local authority programmes/services (source: the Auditor General Department of Malaysia, [www.audit.gov.my](http://www.audit.gov.my), accessed on 20 Dec. 2007). In this regard, the authorities are accountable for the results and outcomes of their programmes/services; that is, performance/managerial accountability is involved. Although only an informal/indirect accountability relationship is involved, the authorities should be responsive to any questions or concerns related to financial and programme performance raised by the auditor and indirectly accountable to the auditor general as the oversight body.

The accountability relationship between Malaysian local authorities through the mayor/president and the panel of councillors involves a hierarchical accountability. The local authorities, through the mayor or president, are accountable to the panel of councillors who are then accountable to the respective state government. Therefore, the scope of accountability or accountability 'for what' is the same for the state government and the councillors. The authorities are accountable to the respective state government for fiscal compliance and performance and the same scopes of accountability apply to accountability to the councillors.



As to creditors, since a contractual agreement is commonly involved, creditors have the right to information about the ability of the local authorities to pay their debts. This is mainly related to financial performance and position and therefore the authorities are accountable for the proper use of their financial resources so as to ensure and maintain their payment ability. Similarly, the accountability of local authorities to their employees is also based on contractual agreements – contracts relating to conditions of employment. Based on a common employment contract, local authorities are accountable for the welfare of their employees. Welfare includes fair wages, contributions, employment skill development and other benefits which are mainly dependent on the financial performance of the authorities. Therefore the authorities are accountable for the proper use of entrusted financial resources so that the welfare of their employees can be sustained.

With regard to the public as tax payers and consumers as well as the interest groups, although there is no specific authority that requires an account to be provided to these stakeholders or accountees, there are a number of provisions that allow them to get access to performance information of local authorities. In terms of financial performance, Section 60(4) of Act 171 requires that audited financial accounts be published in the government gazette. Based on this statutory provision, the local authorities are accountable to the public for financial compliance. Furthermore, Section 23 of the act requires that all meetings of local authorities be open to the public and to representatives of the press and Section 27 provides for the minutes of all proceedings of local authorities to be available for inspection by any tax/rate payer. These provisions are seen as providing the public, including the interest groups, with some access to other information (in addition to financial information). However, as there is no specific provision for a local authority to provide information other than audited financial accounts to the public, the public's right to hold the authority to account for more comprehensive information including financial, process, performance/managerial, and policy information, as suggested by Degeling et al. (1996), is limited. Evidence of this limitation is expected to be found in the current research.

In recent times, there has been increased public interest in the performance of Malaysian local authorities; further, these authorities have undergone a significant transformation towards NPM-type management (as discussed in the introduction chapter). This indicates that the expectations of local authority stakeholders for information (relating to

the broader scope of accountability suggested by Degeling et al., 1996) need to be examined more closely. This is provided in the current research. Specifically, as accountability for different things may lead to preferences for different types of information (Patton, 1992), the current research attempts to identify the information expected by various groups of stakeholder. The aim is to compare and analyse the expectations of the various groups of stakeholder with what is being reported, as well as to determine the extent to which accountability is being discharged by Malaysian local authorities.

#### **4.7 THE DISCHARGE OF ACCOUNTABILITY**

Accountability requires appropriate and accurate information to be reported to accountees. Traditionally, as the focus of accountability has been on financial or fiscal compliance, accountability has been discharged through financial reporting – the reporting of financial information which includes financial viability and the costs of providing services (Miah, 1990). In this regard, financial statements have been used to provide reports on organisational activity and audited financial reports have been the primary means for the discharge of financial accountability. However, financial information, although important to accountability, if used alone, will limit the basis of accountability (Stewart, 1984). As Patton (1992) argues, a complex environment like the public sector with its many dimensions of accountability, may lead to different types of information and disclosure requirements. This implies that diverse reports that include both financial and non-financial information are necessary. This information is most commonly included in general-purpose annual reports which contain both financial and non-financial information.

While annual reports have been recognised as a medium for the discharge of accountability, alternative mechanisms are also widely recognised as being important to discharging accountability in the public sector (Stanley, Jennings & Mack, 2008). Therefore, annual reports should not be seen as the only means of discharging accountability (Coy & Pratt, 1998). Among others, the alternative mechanisms may include personal contacts (Ryan et al., 2002a) and newspaper reports (Kloot & Martin, 2000; Mack & Ryan, 2003). However, annual reports are the only comprehensive statement available to various stakeholders (Boyne & Law, 1991; Mack & Ryan, 2003)

and are considered as a primary accounting reporting mechanism, despite them not reporting on the overall accountability of the agency (Boyne & Law, 1991; Ryan et al., 2002a; Coy et al., 2001). The current research recognises general purpose annual reports as a primary means for the discharge of greater accountability as prescribed by the notion of NPM.

In the context of NPM, with the extended accountability focus, the reporting of financial information alone is no longer sufficient for effective accountability. Accountability in the context of NPM requires more than financial information. While the quantity and quality of information have been the concern for an effective development of accountability (Mulgan, 1997; Martin, 1997), an accountability information system should also report on all levels of Stewart's ladder (Goddard & Powell, 1994) – from accountability for probity and legality which deals with the legality of expenditure, through to process accountability and finally to performance, programme and policy accountability, which is concerned with actions and activities achieved. This involves the reporting of comprehensive, accurate and appropriate information about the condition, performance, activities (the nature of services provided and the quality of service delivery), progress budgets, accounts and other financial indicators to all stakeholders with a social, economic and/or political interest (Coy & Dixon, 2004; Devas & Grant, 2003).

In addition, the arrival of NPM with its emphasis on results and performance and a call for greater and improved accountability (Broadbent & Guthrie, 1992; Hood, 1991; Mulgan & Uhr, 2001), has seen the emergence of performance reporting as an important management tool in promoting the aspects of NPM (Norman & Gregory, 2003). In this regard, the theoretical framework of accountability, in the context of NPM, suggests that performance reporting should provide appropriate, accurate and comprehensive information and involve reporting to wider audiences (Coy et al., 2001). The wider audiences in the context of this research encompass all relevant stakeholders of Malaysian local authorities discussed in Section 4.3.1. Arguably, therefore, performance reporting through the medium of annual reports is important for the discharge of greater accountability in the context of NPM and Malaysian local authorities. The annual reports of Malaysian local authorities are examined in the current research to provide evidence as to the extent that the local authorities have discharged their accountability to

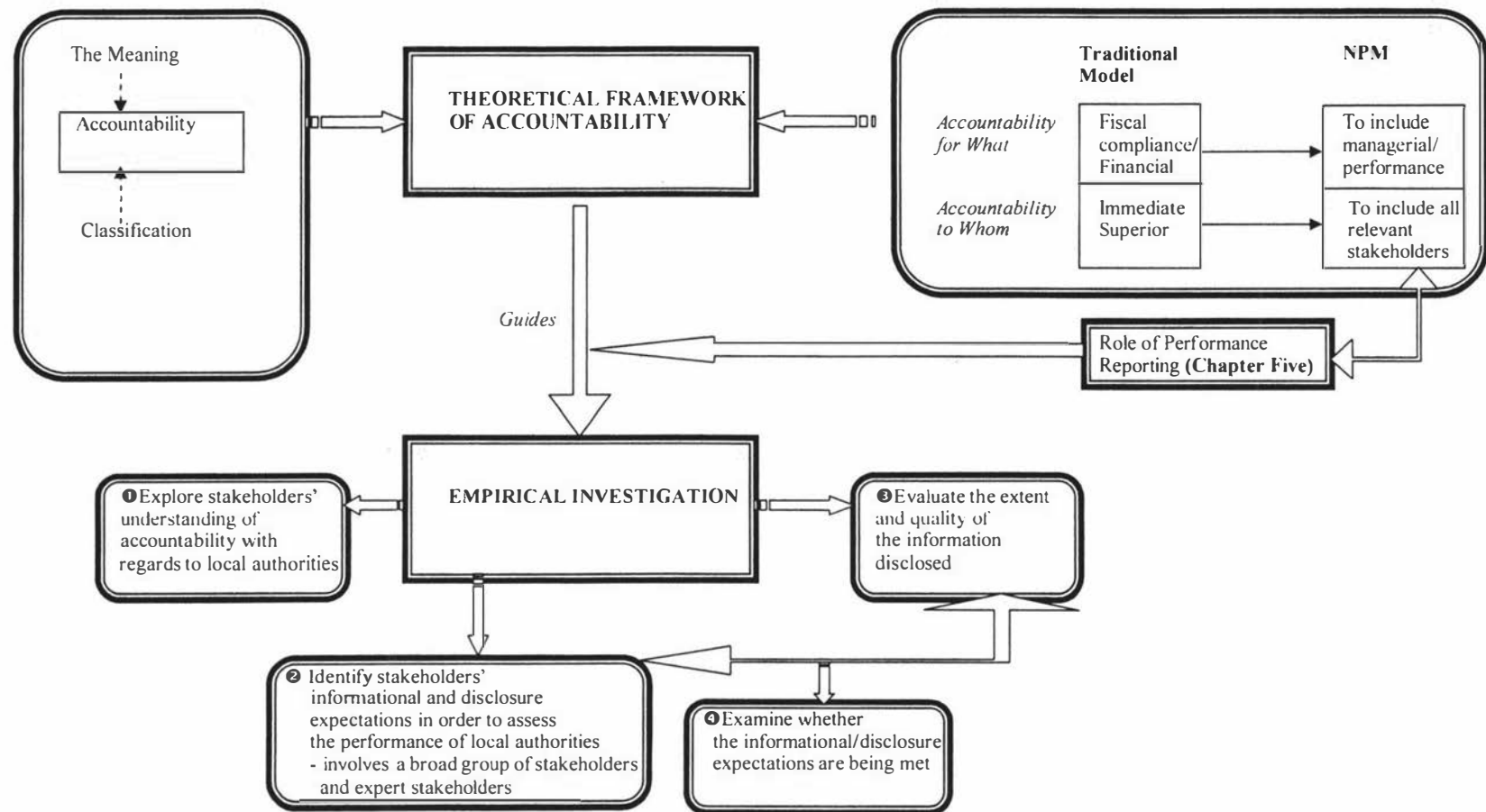
their accountees or stakeholders through reporting. The following chapter provides a framework of performance reporting and the discharge of accountability.

#### **4.8 CHAPTER SUMMARY**

Within the theoretical framework of accountability and in the context of NPM and the Malaysian local authorities, this research treats accountability as a relationship between the accountant (Malaysian local authorities through their president/mayor) and key accountees or stakeholders. In terms of 'accountability to whom', although the notion of hierarchical accountability is relevant, political accountability, public accountability and legal/administrative accountability are considered important in order to promote greater accountability to all relevant stakeholders. In terms of 'accountability for what', the focus is on accountability for performance but the importance of the traditional scope of accountability for fiscal compliance and probity has not been ignored, for example, financial information reported in traditional financial statements is also considered and analysed in the current research. This resonates with the notion of accountability in the context of NPM. As the NPM-type reforms have been implemented in Malaysia, as discussed in Chapter one, it is expected that the local authorities are accountable not only for the proper use of financial resources but also for service performance and not only to the higher authority but also to other relevant stakeholders. It is not the intention of the current research to 'test' the theoretical framework of accountability, but rather the theory is used to guide empirical investigations. The theoretical framework of accountability that is discussed in this chapter, along with the framework of performance reporting that is discussed in the following chapter guide the empirical investigations. The relationship between the theoretical framework and the empirical investigations are shown in Figure 4.3.

As illustrated in Figure 4.3, the theory of accountability provides a framework for the meaning and classification of accountability. In addition, the theory also provides a framework for the expectations of key accountees or stakeholders involved in an accountability relationship, especially in terms of 'accountability to whom' in the public sector in general and in the context of NPM and Malaysian local authorities specifically.

**Figure 4.3: Theoretical Framework: Empirical Investigation**



Further, the theory provides a framework for the scope of 'accountability for what' in relation to both the traditional and NPM focuses as well as in the context of Malaysian local authorities. Finally, the theoretical framework of accountability suggests the importance of performance reporting through the medium of annual reports to promote greater accountability in the context of NPM. The theoretical framework of accountability is used to underpin the empirical investigations, as stated in sequence (numbered 1 to 4) in Figure 4.3, in the context of Malaysian local authorities.

The theoretical framework of accountability, along with the framework of performance reporting that is discussed in the following chapter (Chapter Five) are applied to the four empirical investigations that are centred on the research objectives;

1. To explore the concept of accountability from the perspective of Malaysian stakeholders and the stakeholders' understanding of their relationship with local authorities (Investigation 1, Figure 4.3).
2. To identify the type of information that a broad group of stakeholders expect to enable them to assess and monitor the performance of Malaysian local authorities (Investigation 2, Figure 4.3).
3. To identify the stakeholders' perceptions of the importance of information items for disclosure (Investigation 2, Figure 4.3).
4. To identify experts' perceptions of and agreement on the information necessary for assessing and monitoring the performance of local authorities and the importance of such information for disclosure (Investigation 2, Figure 4.3).
5. To develop a special purpose disclosure index to assess the extent and quality of performance information published in annual reports of Malaysian local authorities (Investigation 2, Figure 4.3).
6. To evaluate the extent and quality of disclosure of performance reporting within the annual reports by applying the developed disclosure index (Investigation 3, Figure 4.3).
7. To ascertain whether the informational and disclosure expectations of stakeholders are being met (Investigation 4, Figure 4.3).
8. To ascertain the extent to which accountability is being discharged through performance reporting (Investigation 4, Figure 4.3).

Overall, the current research recognises that at its core, accountability is about the relationship between the accountor and the accountee. The accountability aspects of communication of information and answerability (which involves elements of explanation and justification), are relevant to the current research, in that they recognise that accountability may be discharged by means of performance reporting through the medium of annual reports in order to discharge accountability to a wider group of stakeholders. It is argued that this could improve both performance and public accountability. The next chapter provides a review of literature on performance reporting and accountability, stakeholders and their information requirements, and the use of a disclosure index in evaluating performance reporting through the medium of annual reports.

## **CHAPTER FIVE**

### **PERFORMANCE REPORTING AND THE DISCHARGE OF ACCOUNTABILITY**

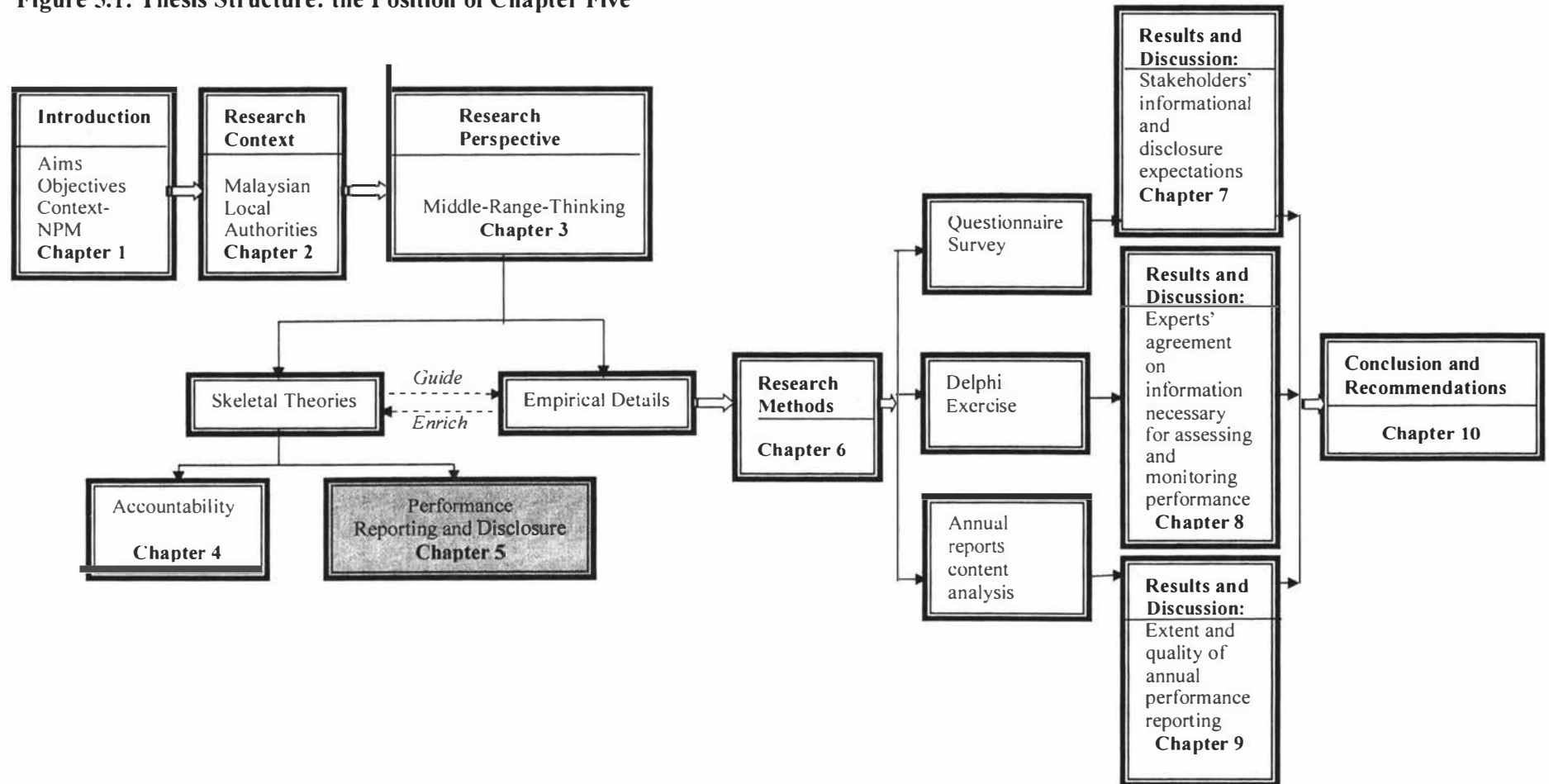
#### **5.1 INTRODUCTION**

This chapter provides a review of literature surrounding the concepts of performance and performance reporting as well as the issues relating to the discharge of accountability through reporting. Further, it provides reviews of prior studies on user/stakeholder information requirements, disclosure studies that focus on the use of an index in measuring levels of disclosure and relevant Malaysian studies. The insights gained from these reviews, along with the accountability framework discussed in Chapter Four provide guidance and conceptual understanding for undertaking empirical investigations aimed at examining the performance reporting practices and accountability of Malaysian local authorities. The review of literature (in Chapter Four and this chapter) is the ‘theory position’ phase in the application of the MRT perspective adopted by this research.

Following the introduction section, the concepts of performance and performance reporting are discussed in Section 5.2. Section 5.3 then provides a discussion on the role of performance reporting for the discharge of accountability. A review of prior studies on user/stakeholder information requirements is provided in Section 5.4. The use of a disclosure index in prior studies in measuring disclosure levels is discussed in Section 5.5. Section 5.6 provides a review of relevant Malaysian studies which is important for providing an understanding of what has happened in relation to performance reporting in the Malaysian context and to provide justification for the current research. Section 5.7 concludes the chapter with a discussion on the skeletal framework ‘sketched’ from the accountability framework discussed in Chapter Four and the review of literature provided in this chapter that leads to the research questions. Section 5.8 provides the chapter summary. The position of this chapter in the overall thesis is shown in Figure 5.1.



**Figure 5.1: Thesis Structure: the Position of Chapter Five**



## 5.2 PERFORMANCE AND PERFORMANCE REPORTING

In the public sector the concept of performance is complex and multi-dimensional (Andrews, Boyne, Law & Walker, 2005). Performance has been defined as “the product or results that ensue from the use of delegated resources and powers” (McCrindell, 1994, p.30). The product or result may be referred to as an achievement in relation to objectives, plans or intentions (Department of Treasury and Finance of Tasmania, 1997). Performance may focus on goal accomplishment and may also cover broad dimensions – the inputs, activities, outputs and outcomes (Wholey, 1999). Therefore, information about performance, as defined by Pollitt (2006, p.39), is the “systematic information describing the outputs and outcomes of public programmes and organization – whether intended or otherwise – generated by systems and processes intended to produce such information”. In this respect, performance information is used to make judgements about goal accomplishment and achievement in converting inputs to outputs and outcomes and is not limited to performance indicators or measures. It includes both financial and non-financial aspects of results (achievements), interactions with the public (operations and delivery of goods and services to the public) and costs of the results and interactions (OAG of New Zealand, 2002). The non-financial aspect of performance information covers the key aspects of service performance which include efficiency, quality, equity, effectiveness and value for money (Andrews et al., 2005).

As performance includes both financial and non-financial aspects, performance information can be provided in the forms of financial performance data (quantitative information that has a numeric value) and non-financial performance data (qualitative information). Lee (2008) notes the importance of both financial and non-financial information in judging public sector performance.

The reporting of only financial information is insufficient to give an indication of the overall performance of a particular public entity (CMA Canada, 1996) or to capture the key aspects of the entity performance (Lee, 2008), although financial reporting has been regarded as playing a major role in the accomplishment of the accountability duty (GASB, 1987). As Fountain, Patton and Steinberg (2004) stated, the external reporting of performance information should also provide a basis for understanding the extent to which an organisation and its programmes, services and strategies have contributed to achieving goals and objectives. Therefore, performance reporting that would indicate

the overall performance of an entity should be comprehensive in that it includes financial and non-financial performance information.

This comprehensive view of performance reporting is consistent with the theoretical accountability framework within the context of NPM, as discussed in Chapter Four, whereby it promotes greater and improved accountability including performance and public accountability. As Coy & Dixon (2004) stated, the reporting should involve “the reporting of comprehensive information about the condition, performance, activities and progress to all those with social, economic and political interests” (p.81). This is consistent with the definition of performance reporting stated by the IFAC (1996):

The communication of quantitative and qualitative information which identifies the results of an enterprise against specified benchmarks (i.e. pre-determined targets). It includes performance information presented in budgets, plans or reports on performance of individual programmes or activities in addition to information provided in the financial statements. (p.3)

In a study conducted by the OECD (2002), a variety of approaches taken in the reporting of performance information were identified, including integration of the information into annual external reports. The current research is concerned with the comprehensive view of performance reporting – the reporting that covers both aspects of financial and non-financial information, which is integrated into external annual reports.

### **5.3 PERFORMANCE REPORTING AND THE DISCHARGE OF ACCOUNTABILITY**

Reporting is one stage in the public accountability cycle which begins with the budget process and ends with reporting to parliament (English & Guthrie, 2000). The reporting function which is concerned with the gathering of data, sorting it into a particular presentation format, and transmitting it leads to issues of what to report, to whom to report, in what form to report in order to discharge the public accountability and whether the reporting meets the expectations of the parties who are entitled to the report. The current research is concerned with these issues.

The reporting of performance information is an important response to public pressure for accountability, as it enables a public sector entity to publicly disclose and be responsible for its actions (OECD, 2004). The discharge of accountability requires transparency (Shende & Bennett, 2004) which can be achieved through reporting. As stated by the comptroller and auditor general of the United Kingdom, (OAG of the UK, 2000, p.1), “consistent, clear reports of performance and publication of results, are important to record progress and exert pressure for improvement. Such transparency is essential to help ensure that public bodies are fully accountable.”

Prior studies have recognised the importance of performance information in the discharge of accountability (for example, Boyne & Law, 1991; Laughlin, 1990; Lee, 2008; Mayston, 1985; OECD, 2004; Rutherford, 2000; Stephen, 1995). According to Barrett (1997), performance information is crucial as it is documented and reported in an organisation’s publications to parliament and other stakeholders. Lee (2008) reports that performance reporting is a tool to enhance both internal and external accountability and its significance for accountability is in assisting in the achievement of the objectives of an organisation and the reporting of information to stakeholders.

Earlier studies on performance reporting have tended to focus only on the reporting of performance indicators or measures (see for example Boyne & Law, 1991; Pendlebury, Jones & Karbhari, 1994; Mucciarone & Neilson, 2006; Thompson, 1995). Boyne and Law (1991), in evaluating the performance indicators provided to the public in annual reports published by Welsh District Councils, found that annual report information on performance indicators was generally of poor quality. Most of the performance indicators contained in the reports referred only to service inputs. The reporting of performance indicators was also the focus in Pendlebury et al.’s (1994) study. The study identified the disclosure of financial performance indicators (cost-reduction, profitability and unit cost indicators) and non-financial performance indicators (procedural efficiency and output quality indicators) in annual reports of United Kingdom government agencies. In the New Zealand public sector, Thompson (1995) focused on the service performance reporting of a specific sample of New Zealand local authority agencies – public art galleries – and found that there were problems with reporting service performance indicators. The links between performance indicators and stated objectives were either unclear or absent, performance indicators were weak, measures of performance against the stated objectives were incomplete and explanations

of performance indicators were not given. The extent of disclosure of performance indicators in the annual reports of Australian federal and state government departments was examined by Mucciarone and Neilson (2006). Their study found that most of the departments studied followed a system of reporting output quality indicators and there was a lack of disclosure of efficiency and effectiveness indicators.

The focus on performance indicators, as in the above studies, is consistent with the concept that performance reports provide periodic information on organisational performance matched against a set of performance indicators which represent outputs delivered by the organisation and the outcomes/impacts achieved (Saldanha, 2004). However, for accountability purposes, the reporting on performance indicators seems inadequate. A wide array of performance information should be reported in the discharge of accountability. This extends the scope of disclosure traditionally provided in financial statements prepared in accordance with a decision usefulness purpose (for example, Boyne & Law, 1991; Hooks, Coy & Davey, 2002; IFAC, 1996; Laughlin, 1990; Mayston, 1985; Rutherford, 2000; Stephen, 1995). In addition to focusing on performance indicators or measures such as inputs, outputs, results, efficiency and effectiveness, Hyndman and Anderson (1995) also focused on performance information in terms of goals and objectives, future target information and budget information. This is consistent with Barrett (1997) who suggested that performance information has a wide focus that goes beyond performance indicators and includes information regarding objectives, strategies to achieve the objectives, targets and benchmarking. Therefore, this current research argues that the wide array of performance information should not be limited to financial information and performance indicators or measures. The accountability paradigm adopted for the current research is based on the premise that reports for accountability purposes should be more comprehensive and cover both financial and non-financial information to meet the needs of a wider group of stakeholders.

In the discharge of accountability to a wider group of stakeholders, annual reports are considered a primary reporting mechanism (Barrett, 1997; Coy et al., 2001; Mack & Ryan, 2003). As transparency is the core element of accountability, annual reports should disclose sufficient information for stakeholders to make informed judgements on an organisation's performance (Barrett, 1997). Therefore, the reports should provide a wide range of information, including performance information in financial and non-

financial terms, to all stakeholders.

Prior studies that have examined annual reports of local government as an accountability mechanism include Ryan, Stanley and Nelson (2002) and Steccolini (2004). Ryan et al. (2002b) examined the quality of disclosure of the Queensland local government's annual reports for the period 1997 to 1999 in order to establish whether their accountability obligations were being met. They found that the quality of annual report disclosure increased over the period studied, although the overall index score was relatively low. Specifically they found that the financial disclosure was complete but that the disclosure of non-financial items including service performance information was weak. Steccolini (2004) found the overall quality of annual reports of Italian local governments was poor. She found that information on financial performance and position was very limited and service performance information was not extensive. She consequently expressed concern at the overall degree of accountability of the local governments during the period under study.

Other prior public sector studies that have examined entire annual reports and related the level of disclosure of the reports to accountability include the studies of Coy and Dixon (2004); Coy et al. (2001); Hooks (2000); Hooks et al. (2002b); Nelson, Banks and Fisher, (2003); Nelson, Fisher, Tower and Banks (1997); Tooley and Guthrie, (2007); and Wei, Davey and Coy (2008).

By means of a public accountability index (PAI), Coy and Dixon (2004) examined the changes in the quality of the annual reports of eight New Zealand universities for the years 1996 and 2000. Similar to Nelson et al. (2003), they found an overall improvement in the quality of the annual reports. Also, by means of an accountability index and by focusing on the school sector, Tooley and Guthrie (2007) examined the entire annual reports of New Zealand's secondary schools and found an overall lack of consistent quantity and quality of performance disclosures which affected the overall quality of the annual reports. In another study, Wei et al. (2008) also developed an accountability index and examined the reporting practice of museums in New Zealand and the United Kingdom. The study found that information regarding internal processes and objectives made up the strongest component of the reports and information on learning and growth constituted the weakest area. These factors impacted on the quality of disclosure in the annual reports.

These reviewed studies indicate that the extent and quality of external annual report disclosure reflect the discharge of accountability, and especially public accountability. An improvement in the extent and quality of reporting indicates an improvement in public accountability rendered through annual report disclosures.

In promoting public accountability, structures and strategies also need to be considered. Focusing on the Canadian province of Alberta, Robinson (2003) built a contractual accountability model and examined a theoretical perspective to see differences between government accountability as proposed and enacted. She found that the Albertan government had increased the use of the elitism of knowledge in the government by introducing and promoting performance measures which emphasise scientific, scholarly knowledge. She argued that the use of complex scientific and economic technologies could disconnect people from their governments. Results from this study imply that performance information provided to stakeholders should take into consideration the stakeholders' expectations and needs, not necessarily the performance information that is produced by complex, scientific and economic technologies perceived as important by the preparers. As the public accountability paradigm recognises the right of a broad group of stakeholders to be informed about the performance and condition of the reporting entity, "a framework for the external accountability reporting must take all elements of performance into consideration for potential reporting and report performance elements that **stakeholders want to know**" (OAG of New Zealand, 2002, p.5, emphasis added). In other words, reporting for accountability purposes should seek to satisfy, as far as possible, the information needs of the stakeholders of the reporting entity.

It is argued in the current research that annual reports, as a key mechanism of performance information reporting and the discharge of public accountability, should contain sufficient and appropriate information as expected by the stakeholders to enable them to assess the performance and condition of the reporting entity. Therefore, the current research is concerned with the expectations of stakeholders in terms of financial and non-financial performance information that is disclosed or should be disclosed in the annual reports of the reporting entities – Malaysian local authorities.

The information expectations of the broad group of stakeholders and their perceptions of the importance of information for disclosure are reconciled and finalised by an expert stakeholder panel in order to develop a disclosure index that is used to evaluate the practice of annual performance reporting of local authorities.

#### **5.4 STAKEHOLDERS' INFORMATION REQUIREMENTS FOR ACCOUNTABILITY PURPOSES**

The previous chapter discussed who stakeholders are in general and in the context of Malaysian local authorities. The stakeholders identified in the chapter may be the users or potential users of annual reports. Van Peurse (1990) highlighted that a framework including both 'users' and 'stakeholders' may, to a great extent, overlap and the term users may in fact be a subset of stakeholders. Therefore, a review of prior studies on users' information needs is relevant for the current research in identifying the information expectations of stakeholders.

A number of empirical studies have been carried out to determine the information needs or requirements of users of public sector reports. Daniels and Daniels (1991) identified four types of information based on users' preferences: (1) information on compliance; (2) information about financial viability, including current financial position and the prospects of the future continuation of services and the repayment of debt; (3) information on operating results (performance); and (4) information about efficiency and effectiveness (surrogated by cost of services).

The studies of Hay and Antonio (1990) and Jones, Scott, Kimbro and Ingram (1985) focused on information types (3) and (4) as classified by Daniels and Daniels (1991). Hay and Antonio (1990) also noted the importance of specific and detailed information rather than general statements. Detailed information is consistent with the comprehensive view of performance reporting discussed in Section 5.2 that claims it is necessary to promote greater and improved accountability. Detailed information should be extended to narrative and non-financial information which includes descriptions of objectives of services provided, performance indicators, and budgeting information (Lapsley, 1992). In other words, information that may indicate the performance of the service provided and the performance of an organisation as a whole, outlining factors



such as inputs, efficiency, effectiveness, customer satisfaction, costs, outputs, quality, speed, equity and information on targets as well as an evaluation of the meeting of targets (Boyne et. al., 2002) is useful for accountability purposes.

In Clark's 2003 study, users of government annual reports identified outcome measures as the most important performance indicators followed by effectiveness measures, output measures, staffing ratios, efficiency measures and workload measures. Other information of importance included a descriptive review of operations, statistical performance information, the auditor-general report, financial statements, notes to financial statements, and a department secretary foreword. Also, in the context of government annual reporting, Mack and Ryan (2004) found that summary facts, figures and key statistics, financial review and analysis, performance indicators and budget versus actual information were identified by users as being useful for the purpose of discharging financial and public accountability to stakeholders. Therefore, in this current research, financial and non-financial information including service and financial performance information, reviews of operations, information about the organisation's background and future plans are considered in the selection of potential information items for identifying the information expectations of stakeholders of Malaysian local authorities.

Wisniewski and Stewart (2004) recognised a broad group of stakeholders in a study that focused on performance measurement information in a sample of Scottish local authorities. They found consistency in the type of performance measurement information that would be required to inform judgement of each stakeholder group. The groups of stakeholders involved included elected representatives, service managers, client departments, direct customers, staff and auditors. The required information identified in the study included target performance (based on stakeholder expectations, past performance and national standards), actual performance (against targets and over time) and stakeholder perceptions (against their expectations). These findings emphasise the need to report publicly on current responsibilities and intentions (Farneti & Bestsreur, 2004) in order that stakeholders can engage in informed debate over the choice of public sector organisational goals, and in the ongoing monitoring and evaluation of goal achievement.

Previous research also recognised that the information needs of different groups of

stakeholders may be different. For example, oversight and legislative bodies may focus on wider performance information including efficiency and probity. Information relating to solvency may be of primary interest to financiers and creditors, and as Kanter and Summers (1987) proposed: “managers might prefer structural measures of organizational characteristics because they have control over such factors; the rank and file might prefer process measures of activities because they control their own performance; and clients and customers prefer outcome measures because they want results, not promises or mere effort” (p.158).

To summarise, the prior studies of stakeholders’ or users’ information requirements have commonly recognised the importance of the needs of users or stakeholders to be considered in the communication of relevant information to them. Attention to stakeholders is important because accomplishments of public organisations are dependent on satisfying what key stakeholders perceive as valuable (Bryson, 1995). In the current research, the information expectations of stakeholders of Malaysian local authorities are identified and compared to the actual or current practice of reporting of performance information within the annual reports. The gap between the expectations of stakeholders and reporting practices may indicate a lack of accountability. For the purpose of identifying the gap and determining the discharge of accountability, the information disclosures within the annual reports are measured. The following section discusses the approach used in prior studies in measuring disclosure, focusing specifically on the use of disclosure indices.

## **5.5 MEASURING DISCLOSURE OF INFORMATION – THE USE OF DISCLOSURE INDICES**

Disclosure has been generally recognised in the literature as an abstract concept in that its direct measure cannot be determined (Botosan, 1997; Healy & Palepu, 2001; Wallace & Naser, 1995) and its best measure is impossible to define (Beretta & Bozzolan 2008). According to Wallace and Naser (1995), disclosure does not possess natural characteristics that permit a determination of its quantity or quality.

Since the pioneering work of Cerf (1961), several approaches have been employed to measure disclosure, especially in annual reports. The approaches involve content

analysis of the reports – a method of codifying the content or text of a piece of writing into categories based on chosen criteria to make them more manageable (Weber, 1990). According to Ryan et al. (2002b), the approaches of content analysis include ‘form oriented’ analysis, which involves word or sentence counting; ‘meaning oriented’ analysis, which involves analysis based on specific themes; and the use of a disclosure index. This research uses a disclosure index in evaluating the practice of reporting of performance information within local authority annual reports.

A disclosure index is a list of pre-selected information items, designed to measure the disclosure of such items (Marston & Shrives, 1991; Nelson et al., 2003). Such an index, as stated by Coy (1995, p.121), “...when scores for [the] items are aggregated, gives a surrogate score indicative of the level of disclosure in the specific context for which the index was devised.” Therefore, a disclosure index provides an indirect measure of the disclosure and its usability depends upon the items included in the index.

A disclosure index has been considered in the literature as a practical and valid research tool (Botosan 1997; Cheng, 1992), although some degrees of subjectivity are involved in the selection of the items to be listed in the index (Botosan, 1997; Marston & Shrives, 1991). Although the subjectivity cannot be completely removed (Marston & Shrives, 1991) its effect can be minimised by reviewing previous studies and current practices (Owusu-Ansah, 1997). The use of a disclosure index to measure level of disclosure has a long tradition and is still very common in empirical accounting research (Prencipe, 2004).

Extensive reviews of prior studies that used disclosure indices in measuring levels of disclosure have been provided by Ahmed and Courtis (1999), Hooks (2000) and Marston and Shrives (1991, 1996). Marston and Shrives (1991) reviewed disclosure index studies undertaken before 1986 and Ahmed and Courtis (1999) reviewed studies undertaken from 1968 to 1997. These reviews focused on the association between disclosure levels and characteristics such as firm size, leverage and profitability. Hooks (2000) provided a review of disclosure index studies undertaken over the period 1961 to 1998. The review focused on the characteristics of the self-constructed disclosure indices including the descriptions and application of the indices. The current research does not examine any association between disclosure level and other variables and therefore the focus of the review of literature provided in this chapter is similar to that of

Hooks (2000). The current review focuses on the description of disclosure indices used in prior studies undertaken over the last decade (1997 to 2008) and may be seen as an extension of the previous reviews. A summary of the current review is shown in Appendix A.

The current review shows that the application of a disclosure index to measure disclosure has been widely carried out both in the private and public sectors, and across developed and developing countries. Indices have been applied to measure levels of disclosure of either the entire report or specific aspects of interest covered by such reports. The levels of disclosure that have been measured can be seen in terms of the extent of disclosure (the amount or quantity of disclosure) or both the extent and the quality of disclosure. Similar to previous literature reviews, the current review (see Appendix A) also finds that the number of items used in the disclosure indices varies and the indices can be either unweighted or weighted.

#### **5.5.1 Unweighted or Weighted Indices**

Based on the previous and current reviews of literature on disclosure index studies, an unweighted index scores each item in the index equally, while a weighted one assigns a weight to each item in order to allow for the different relevance of each of the items. Usually an index's items are weighted based on their importance: the weighted index considers some items as being more important than others (see for example Barako, Hancock & Izan, 2006; Botosan, 1997; Cahan, Rahman & Perera, 2005; Cerf, 1961; Firth, 1978; Ho & Wong, 2001; Hooks, 2000; Hooks, Coy & Davey, 2001; Hooks et al., 2002b; Malone, Fries & Jones, 1993; Robbins & Austin, 1986; Ryan et. al., 2002b; Singhvi & Desai, 1971; Tower, Coy & Dixon, 1995; Vanstraelen, Zarzeski & Robb, 2003). On the other hand, the unweighted index assumes that all items are equally important (see for example Chen & Jaggi, 2000; Craig & Diga 1998; Cooke, 1989; 1992; Haniffa & Cooke, 2002; Hassan, Giorgioni & Romilly, 2006; Makhija & Patton, 2004; Tooley & Guthrie, 2007; Wallace, Naser & Mora 1994; Williams, 2001). Both types of index can also be used together in a single study (see for example Barrett, 1976; Bliss, Gul, Balachandran & Majid, 2006; Chow & Wong-Boren, 1987; Gordon, Fischer, Malone & Tower, 2002; Prencipe, 2004; Wallace, Choudhury & Adhikari, 1999; Wallace, 1988a; Zarzeski, 1996).

For an unweighted index, the score of '1' is attributed for disclosure of specified items and the score of '0' is attributed for non-disclosure. This type of index can be used to measure the extent of disclosure (referring to the amount or quantity of items disclosed). For a weighted index, disclosure items are weighted according to predefined scales as decided by researchers. The weights can be externally generated and reflect the importance of each disclosure item attributed by a specific group or various groups of users. In the seminal works of Cerf (1961) and Firth (1979) and in the studies of Ho and Wong (2001) and Prencipe (2004), a group of security or financial analysts was involved in generating the weights. Various groups of users took part in early studies, such as Firth's (1976), which involved preparers and auditors, and Firer and Meth's (1986), which included financial directors and investment analysts. Further to this, Wallace (1988a) considered the perceptions of wider user groups – chartered accountants, financial analysts, civil servants, other professionals, managers and investors – as to the degree of importance of the index items. This approach has been followed by the recent studies (as shown in Appendix A) of Coy and Dixon (2004), Hooks et al. (2002b) and Naser and Nuseibeh (2003). The study of Hooks et al. (2002b) involved a panel of stakeholders (representing stakeholder groups of auditors, lenders, regulators, preparers, academics, environmentalists, employees, consumers, financial reporters, industry consultants, consumers' institute representatives, directors, executives and financial analysts); and Naser and Nuseibeh (2003) included seven user groups (individual investors, institutional investors, financial analysts, bank credit officers, government representatives, academics and auditors). While these studies used externally generated weights of importance, weights can also be determined by researchers themselves based on prior studies and/or statutory and accounting requirements and practitioners' advice (see for example Gordon et al., 2002; Ryan et al., 2002b; Tower et al., 1995).

In addition, there are previous studies that weighted their disclosure indices based on elements other than the degree of importance. Wallace et al. (1999) used a weighting procedure based on relevance, reliability and usefulness as perceived by financial analysts. According to Beretta and Bozzolan (2008), weights have also been determined by researchers based on the type of measure (qualitative versus quantitative) associated with the information (for example, Botosan, 1997) and based on the extensiveness of disclosure – either there is extensive or some disclosure (for example, Robb, Single & Zarzeski, 2001; Zarzeski, 1996).

Both unweighted and weighted indices have advantages and disadvantages. While an unweighted index does not involve bias or subjective judgement in scoring the items disclosed, the use of such an index has been criticised for its fundamental assumption that all items are equally important (Wei et al., 2008). The assumption that each item is equally important for all users is probably inaccurate (Raffournier, 1995). However, the use of a weighted index has been criticised because rating the items requires a subjective judgement (Steccolini, 2004; Wei et al., 2008) and if the weighting is generated from users' perceptions, it may introduce bias towards a particular user group (Steccolini, 2004). However, this study supports Wei et al. (2008) in the view that the items disclosed are obviously not of equal importance and therefore should be weighted for their importance.

The use of either unweighted or weighted indices has, in some cases, been found to give no material difference in results (Firth, 1980; Naser & Nuseibeh, 2003; Robbins & Austin, 1986; Wallace & Naser, 1995). The major argument of studies that are in favour of an unweighted index is that "one class of user will attach different weights to an item than other classes" and that "the subjective weights of user groups will average each other out" (Cooke, 1989, p.115). However, according to Robbins and Austin (1986, p.420), "conceptually an analysis that incorporates the importance of individual disclosures is superior to one that does not." Raffournier (1995) also contends that weightings add value to the disclosure index. Ryan et al. (2002b) consider that both unweighted and weighted indices should be used together to see the effect of weighting. The current research develops a weighted index based on the degree of importance of each index item disclosed as perceived and agreed on by a panel of experts who represent the key stakeholders of Malaysian local authorities. In addition, the index is based on disclosure quality criteria drawn from literature, professional bodies' recommendations and Malaysian public sector statutory requirements. However, the unweighted scores are also reported to identify the effect of weighting. The process of the development of the disclosure index, the identification of quality criteria and the scoring procedure for the application of the index are discussed in the following chapter (Chapter Six). The following section discusses various concepts of disclosure quality found in prior studies and how the concepts are operationalised in this current research.

### 5.5.2 Disclosure Quality

It is contended in this current research that the appreciation of the disclosure level requires consideration of not only the extent or quantity of disclosure but also the quality of disclosure. However, the concept of 'quality' is complex and multidimensional as it depends on the perspective of the evaluation of the disclosure (Beretta & Bozzolan, 2008). According to Beretta and Bozzolan, (2008), the quantity measure of disclosure had been used in some prior studies as a proxy for disclosure quality but the researchers disputed such an idea and proposed that the quality of disclosure should cover both "the quantity of information disclosed and the richness of its content" (p.3). Berretta and Bozzolan (2008) defined "richness" as "a function both of the breadth of the disclosures on different topics regarding a firm's business model and value creation strategy and of the depth of the disclosures in relation to the presence of insights into a firm's future performance" (p.3). Their study assumes that the measure of disclosure quality of annual reports is not related to the level of disclosure but rather the study describes dimensions of annual report disclosure that are considered useful by users in forecasting earnings in order to support market participants in their economic decisions. However, the current research considers that the measure of disclosure quality is related to the level of disclosure. This is consistent with the aim of the current research which is to investigate the practice of reporting of performance information within the annual reports. The level of disclosure is defined as the presence or absence of pre-selected items (the extent or quantity of disclosure) and the quality of disclosure of such items.

The measure of disclosure quality has been operationalised in prior studies as adequacy (Buzby, 1974), degree of inclusion (Barrett, 1976), completeness or full disclosure (Imhoff, 1992), and comprehensiveness (Coy, 1995; Coy & Dixon, 2004; Hooks, 2000; Hooks et al., 2001; Hooks et al., 2002b; Ryan et al., 2002b; Tooley & Guthrie, 2007; Van Staden & Hooks, 2007; Wallace et al., 1994; Wallace et al., 1999).

In measuring the quality of disclosure, Buzby (1974) divided the pre-selected information items into three groups. The first group consisted of items considered single pieces of information items (self-contained), which either were or were not disclosed. A full point (the item's relative importance score) was awarded for disclosure of the item and zero otherwise. The second group consisted of items which could be disclosed

according to the degree of specificity. A full point was awarded if the specific information (for example, the estimate or forecast of earnings per share) was disclosed and half a point was given if only a general comment on the item was made. The third group consisted of those that contained sub-elements of information which were pre-determined by the researcher based on an extensive review of literature. A full point was given if all the sub-elements were disclosed. A partial point was granted if only part of the sub-elements was disclosed (i.e. [number of elements disclosed/number of elements expected] x the maximum possible or full point). This procedure was followed by Barrett (1976) and by a recent study (as shown in Appendix A) of Al-Razeen and Karbhari (2004). However, both Barrett (1976) and Al-Razeen and Karbhari (2004) divided their index items into two groups – the group of single-information (self-contained) items and the group of items that contained sub-elements or multiple information.

Wallace et al. (1994; 1999) related comprehensiveness of disclosure to the depth or density (fullness) of information provided in annual reports and accounts. The score allocated to each item reflected the detail of each item as compared to the details expected of the item based on the pre-determined criteria.

The measure of comprehensiveness of disclosure based on pre-determined criteria was also used in other prior studies (for example, Coy, Tower & Dixon, 1993; Hooks, 2000; Hooks et al., 2001; Hooks et al., 2002b; Ryan et al., 2002b; Tooley & Guthrie, 2007; Wei et al., 2008). These studies determined the standard quality criteria for each item and the item was scored in relation to the criteria. Hooks (2000) referred to the standard quality criteria as the anchor statements which represented best practice criteria.

The quality of disclosure has also been referred to as the degree of specificity (for example, Wiseman, 1982; Robbins & Austin, 1986; Botosan, 1997; Cahan et al., 2005; Garcia-Meca & Martinez, 2005). The procedure weights quantitative information more heavily than qualitative information. The highest score is allocated to an item that is described in quantitative terms and the lowest score is allocated to an item that is disclosed only in qualitative general terms.



As shown in the current review of literature of disclosure studies (see Appendix A), the studies of Botosan (1997), Cahan et al. (2005) and Garcia-Meca and Martinez (2005) followed a similar procedure that weighted quantitative information more heavily than qualitative information. Naser and Nuseibeh (2003), on the other hand, took the extent and importance of disclosure, as well as the degree of compliance as a proxy of disclosure quality.

An evaluation of the extent, the degree of detail of disclosure and the degree of importance across local authorities and over time is the subject of the current research. This research follows Buzby (1974), Barrett (1976) and Al-Razeen and Karbhari (2004) in measuring disclosure quality. The justification of the use and application of this approach is explained in the following chapter, along with the construction of the disclosure index used in this current research and the scoring procedure for the application of the index. The score obtained from the application of the index is the score for extent and quality of disclosure of information items in annual reports which may indicate the extent to which accountability is discharged through reporting.

Based on the current review of disclosure studies, there are limited studies that have focused on accountability through reporting (for example, Coy & Dixon, 2004; Ryan et al., 2002b; Hooks et al., 2002b). Following Ryan et al. (2002b), the current research also examines the discharge of accountability through annual reporting by local authorities (local government in Ryan et al.'s 2002b study).

The following section reviews the relevant Malaysian studies in order to integrate the findings of the studies and to explain the relevance of the current research.

## **5.6 RELEVANT MALAYSIAN STUDIES**

The reviewed Malaysian studies are related to reporting of performance information including financial and service performance information. Studies that focused on reporting of financial information include Tayib, Coombs and Amin (1999), Coombs and Tayib (2000) and Saidin, Tayib, Engku Ali and Samsudin (2006).

Tayib et al. (1999) studied the financial reporting of local authorities. They explored the present reporting practice of authorities regarding the type of statements included in annual financial accounts in comparison with financial reporting requirements (Federal Treasury Circular No. 1 1988) adopted by the authorities. They also compared what was presented in the annual financial accounts with the needs of local taxpayers and found a large expectation gap between their needs and the financial reporting practices adopted by Malaysian local authorities. Given the fact that “accountability is in part discharged through the provision of information” (Hooks et al., 2002b, p.1), the gap between the financial information requirements of local taxpayers and what has been reported in financial annual reports indicates that the accountability of local authorities rendered through a reporting medium has been compromised (Kluvers, 2001). The gap shows inadequacies in the reporting of financial information required by stakeholders.

Coombs and Tayib (2000) examined the financial information provided in the published financial accounts of local authorities in the United Kingdom and Malaysia. A disclosure index based on the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on local authority accounting in the UK was developed and applied to a sample of local authority accounts from both countries in order to assess disclosure in annual financial reports and accounts. The study revealed that Malaysian local authorities achieved a lower level of compliance with the CIPFA code of practice compared to those in the UK. Further, the study suggested that the lower scores achieved by Malaysian local authorities resulted from the accounts not giving the equivalent level of detail to that of the authorities in the UK.

Another study that also focused on financial reporting is that of Saidin et al. (2006). The study examined financial reporting practices of local authorities and the perceptions of local taxpayers of the disclosure of financial information. The results of the study revealed that a majority of authorities complied with the accounting standards issued by the Malaysian Accounting Standard Board, although the standards had not formally been imposed on the authorities. However, the study revealed that the taxpayers found the financial reports to be difficult to access.

Rather than focusing on financial reporting of local authorities, a study by Neilson and Mucciarone (2007) examined performance reporting by Malaysian government departments in terms of reporting of service performance indicators in the annual

accounts of the departments. The results from the interviews undertaken showed a low level of disclosure of efficiency indicators and the non-disclosure of effectiveness indicators. The reporting of performance measures was shown by Mohamad's (2004) study to only satisfy higher authorities such as the respective state governments.

In a more comprehensive approach, Nichol and Taylor (2001) examined the nature and extent of disclosure in the annual 'public accounts' of the Malaysian government, its ministries and other public sector entities. The study employed a content analysis of the public accounts of those entities. The analysis involved a checklist of significant items of performance information based on Hyndman and Anderson's (1995) framework. In this framework, performance is related to the concept of managerial accountability. The list of performance-related information finalised by the researchers included statements of objectives, inputs, outputs, results/outcomes, economy, efficiency and effectiveness. In addition to performance information, Nichol and Taylor's (2001) study also examined the disclosure of accountability information which was also based on Hyndman and Anderson's (1995) framework. In this study the term accountability refers specifically to fiduciary accountability and the accountability information items include compliance, auditor's opinion, financial statements, sanction/reward statements (reporting on sanctions imposed or awards given), quality of internal control and statements of accomplishment. The extent of disclosure of performance and accountability dimensions was measured on the basis of the number of lines or pages of disclosure per category. The study concluded that the public sector performance reforms from the mid-1980s and mid-1990s that relate to performance reporting and accountability had no significant impact on the nature and extent of disclosures in the public accounts of the Malaysian government.

The current research can be seen as an extension of the above studies. By taking into consideration a more comprehensive view of performance information (which includes financial performance information, performance indicators and other non-financial performance information) as well as the information expectations of stakeholders, the current research widens the concept of accountability to embrace the dimensions of fiduciary, managerial/performance and public accountability. As compared to Nichol and Taylor's (2001) study, the concept of accountability used in the study is equivalent to fiduciary accountability (or accountability for probity and legality) and performance items are limited to performance indicators, statements of objectives and strategy

objectives. In addition, Nichol and Taylor's (2001) study used a 'form oriented' content analysis of public accounts of the Malaysian government and its entities, whereas the current research uses a disclosure index in determining the extent and quality of disclosure of Malaysian local authorities' annual reports (which include financial and service reports).

The current research is different from the above Malaysian studies (especially Neilson & Mucciarone, 2007; Saidin et al., 2006; Tayib et al., 1999) as it focuses not only on financial performance information but also on non-financial performance information. The current research has taken into consideration the needs of a broad group of stakeholders and has not been limited to taxpayers as in Tayib et al. (1999) and Saidin et al. (2006). In terms of the disclosure index, Coombs and Tayib (2000) developed an index based on CIPFA code of practice on local authority accounting in the United Kingdom and applied the index to the annual reports of Malaysian local authorities without taking into consideration the stakeholders' needs. This review of the related Malaysian studies and of other previous studies highlights the need for the current research.

## **5.7 CONCLUSION**

The above review of literature indicates recognition of the importance of performance reporting for the discharge of accountability. However, there has been no agreement on stakeholders' information requirements for accountability purposes. Studies that focus specifically on accountability through reporting in the public sector, especially in local government or local authority contexts, are found to be limited. Therefore, more local government or local authority studies on stakeholders' information requirements for accountability purposes are necessary. It is argued in the current research that the stakeholders' information requirements for accountability purposes are context-specific and dependent on the group of stakeholders identified. It is posited that the information expectations of the stakeholders of Malaysian local authorities for assessing and monitoring the performance of the local authorities are not fully understood. Consistent with the middle-range thinking perspective, these contextualised findings would 'enrich' the theoretical schemes ('skeletal theories') developed from the insights from the accountability framework discussed in Chapter Four and the review of literature

discussed in this chapter.

The review of disclosure studies has provided a pool of informational items and disclosures considered important by annual report users and is used in the current research in the selection of potential information items to include in a questionnaire to identify these contextualised informational expectations. The question of whether these same informational items and disclosures are equally relevant in the specific context of Malaysian local authorities has been addressed. Along with the theoretical framework of accountability discussed in Chapter Four, the review of literature provided in this chapter has formed theoretical schemes (skeletal theories) of accountability ('accountability to whom' and 'accountability for what') and stakeholders' informational requirements for accountability purposes. These skeletal theories are used as guidance in carrying out empirical investigations.

In relation to Malaysian studies, to date, there seems to be neither a study in relation to Malaysian local authorities that identifies the expectations of stakeholders in terms of information necessary for assessing and monitoring the performance of authorities, nor a study that examines the disclosure of both financial and non-financial performance information by local authorities. Within the framework of performance and public accountability and the emphasis on external accountability reporting, it is posited that performance information expected by a broad group of stakeholders (not only taxpayers) should be reported in the annual reports of local authorities and the information should include not only financial, including financial information disclosed in financial statements and ancillary statements, but also non-financial performance information, including performance information related to programmes or services provided by the authorities. As Normanton (1971) stated, "accountability, particularly in the public sector, requires information and explanation about actions and decisions of public entities to be provided to their stakeholders over and above what would normally be included in the audited financial statements"(p.9).

Therefore, the current research is relevant in that it provides contextual details in completing and enriching the theory of public sector accountability and performance reporting. The theoretical framework of accountability discussed in the previous chapter and the insights from the review of literature provided in this chapter lead to the following research questions that are addressed via empirical investigations:

1. What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities?
2. What type of information do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities?
3. How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders?
4. What type of information items do expert stakeholders agree is necessary for assessing and monitoring the performance of local authorities and what is the importance of such items for disclosure?
5. How can the information and its importance for disclosure, as agreed by the experts, be organised as a disclosure index for assessing the extent and quality of information disclosure?
6. What is the extent and quality of disclosure of information within the annual reports of Malaysian local authorities?
7. Does the information being disclosed in the annual reports meet the expectations of stakeholders?
8. To what extent is accountability being discharged through annual performance reporting of local authorities?

The methods employed in the current research in carrying out empirical investigations are discussed in the following chapter and the results of the empirical investigations that answer the research questions are reported in Chapter Seven to Chapter Nine.

## **5.8 CHAPTER SUMMARY**

In summary, the literature provides a contextual base from which to examine performance reporting and accountability. The literature acknowledges the role of annual reports in reporting both financial and non-financial performance information of public sector entities and consequently in the discharge of public sector accountability and especially the accountability of local government entities. The literature that has been reviewed also provides evidence of the importance of identifying the stakeholders' information expectations in meeting the external accountability reporting purposes within the public accountability paradigm. The review of literature on disclosure index studies provides guidance in developing a disclosure index and applying the index in measuring the level of disclosure of performance information. Overall, the review of literature provides guidance in undertaking empirical investigations to address the research questions and eventually to achieve the research objectives and aims. The following chapter discusses the research methods employed in undertaking the empirical investigations.

## **CHAPTER SIX**

### **RESEARCH METHOD**

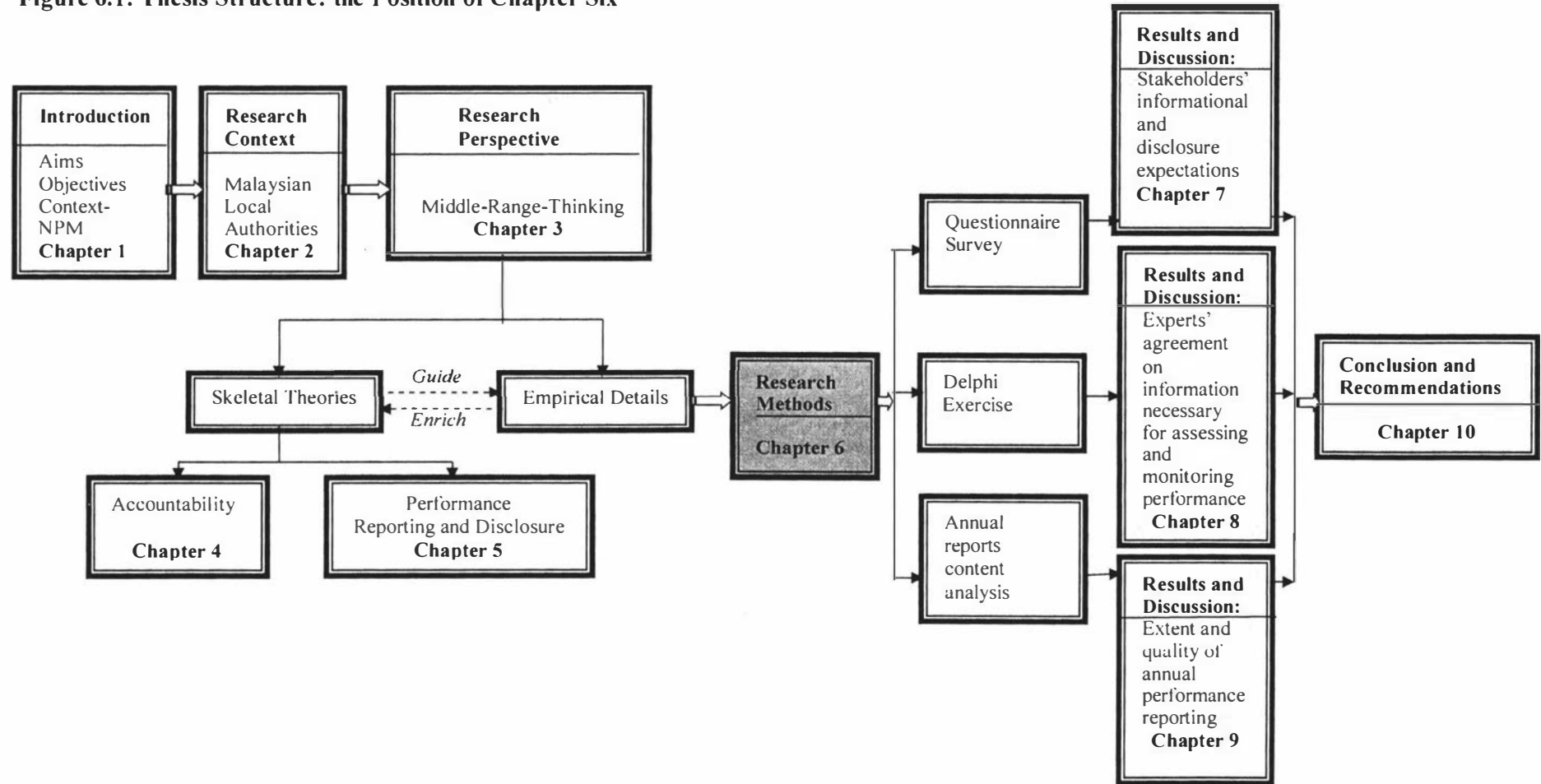
#### **6.1 INTRODUCTION**

The previous two chapters have discussed the ‘theory position’ in the application of the middle-range thinking (MRT) perspective to research. This chapter provides a discussion on the ‘methodological position’ of MRT in that it discusses the methods employed in the current research in carrying out empirical investigations. Both quantitative and qualitative methods are involved – a questionnaire survey, a Delphi exercise and a content analysis of annual reports utilising a disclosure index. The development of the index commenced with an extensive literature review in order to identify potential disclosure items to be included in a questionnaire survey. Via the survey, the information necessary for assessing and monitoring the performance of Malaysian local authorities as expected by stakeholders of the local authorities was identified. This information was reconciled and validated through a Delphi exercise. From this a draft disclosure index was developed and used to assess the content of a sample of annual reports.

Following the introduction section, this chapter proceeds with Section 6.2 which details the research methods employed for data collection. Specifically sub-section 6.2.1 describes the questionnaire survey, sub-section 6.2.2 provides a description of the Delphi exercise and sub-section 6.2.3 discusses the content analysis of annual reports including the process of developing the disclosure index that was used in the content analysis. This chapter concludes with a chapter summary in Section 6.3. The position of this chapter in relation to the thesis structure is depicted in Figure 6.1.



**Figure 6.1: Thesis Structure: the Position of Chapter Six**



## 6.2 RESEARCH METHODS EMPLOYED

Since MRT maintains that subjectivity and structured formality can work together (Laughlin, 2007), both quantitative and qualitative methods of data collection and analysis were employed in this research. These are graphically represented in Figure 6.2. The methods of data collection included a questionnaire survey, a Delphi exercise and a content analysis of annual reports. The questionnaire survey is a form of quantitative research, the Delphi exercise involves both quantitative and qualitative methods and the analysis of the annual reports using a disclosure index can be classified as quantitative in its approach.

As shown in Figure 6.2, the questionnaire survey was carried out at stage one in order to address the first three research questions:

### *Research Question 1*

What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities?

### *Research Question 2*

What type of information do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities?

### *Research Question 3*

How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders?

The outputs or findings from the survey (those that were related to the stakeholders' expectations on information and disclosure importance) were used in the Delphi exercise that was carried out at stage two. The exercise that involves a panel of experts was carried out to address the next two research questions:

### *Research Question 4*

What type of information items do expert stakeholders agree is necessary for assessing and monitoring the performance of local authorities and what is the importance of such items for disclosure?

*Research Question 5*

How can the information and its importance for disclosure, as agreed by the experts, be organised as a disclosure index for assessing the extent and quality of information disclosure?

The outputs from the exercise, the agreement/consensus on the information necessary for assessing and monitoring the performance of local authorities and the information disclosure importance weightings were used in the development of the disclosure index. The index was then applied in the annual report content analysis that was carried out at stage three of the data collection process. At this stage the three final research questions were addressed:

*Research Question 6*

What is the extent and quality of disclosure of information within the annual reports of Malaysian local authorities?

*Research Question 7*

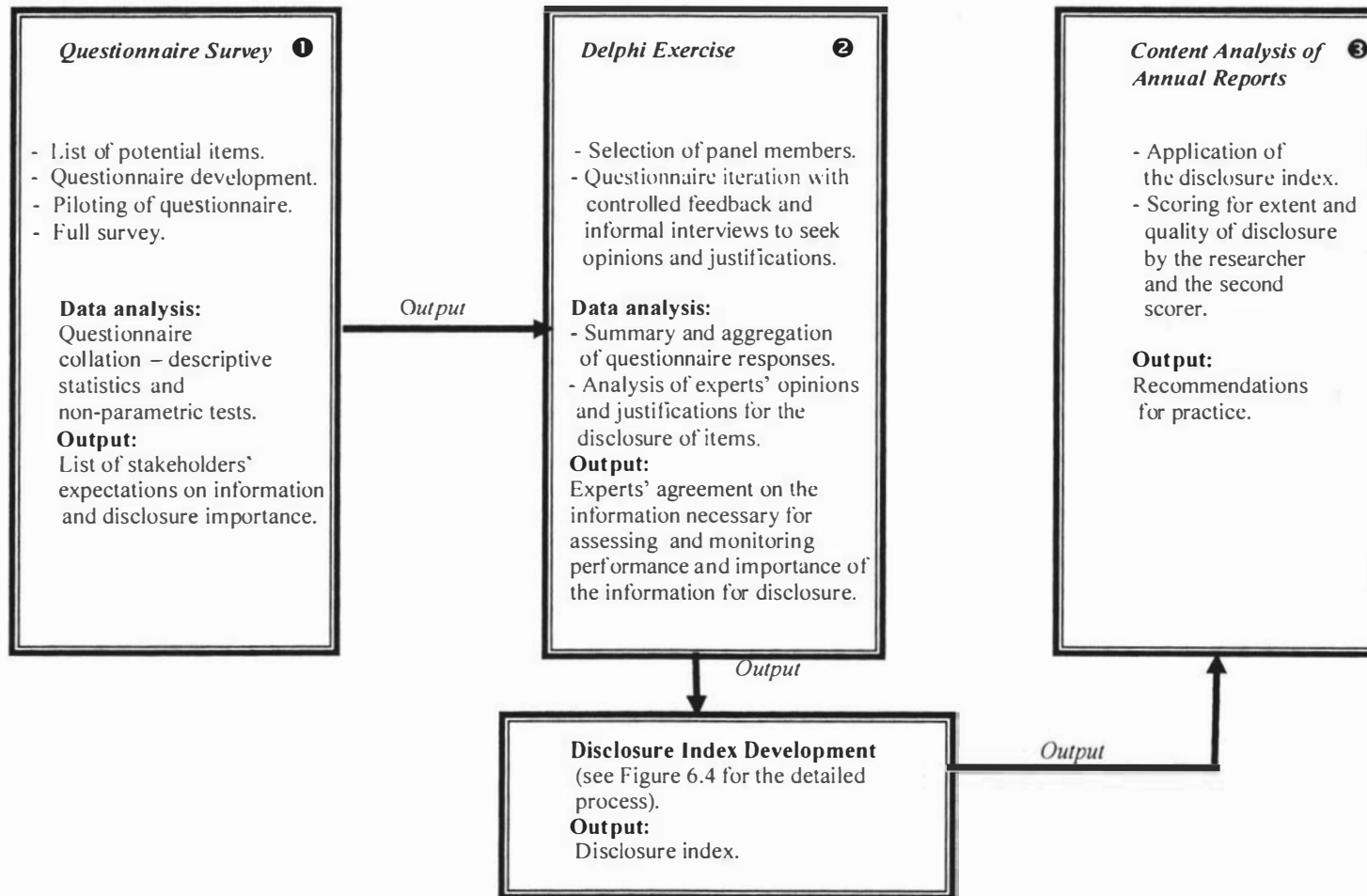
Does the information being disclosed in the annual reports meet the expectations of stakeholders?

*Research Question 8*

To what extent is accountability being discharged through annual performance reporting of local authorities?

The methods employed in this research are discussed in detail in the following subsections.

**Figure 6.2: Research Methods for Data Collection and Analysis**



### **6.2.1 Stage One: Questionnaire Survey**

A questionnaire survey is appropriate for collecting data on perceptions because it is practical and efficient (Ary, 1972), especially when a large number of respondents are involved (such as the broad group of stakeholders involved in this research). The involvement of such stakeholders as research respondents is consistent with the theoretical framework of accountability as discussed in Chapter Four of this thesis. As Normanton (1971) stated, “the very essence of accountability means that outside bodies must determine the content of annual reports” (p.67). The broad stakeholder group includes not only stakeholders outside local authorities (external stakeholders) but also those within the authorities (internal stakeholders). This supports a broader perspective of public accountability that takes into account those who have social, political and economic interests in reporting organisations (Coy et al., 2001). Accountability can be said to be ‘rights based’ (Pallot, 1992) and therefore the requirements and perceptions of stakeholders – those persons having ‘a reasonable right’ to information concerning the reporting entity (ASSC, 1975) – should be considered in determining the appropriate content of reports (such as annual reports).

#### **6.2.1.1 Questionnaire Design**

The questionnaire was designed to address the first three research questions (see Section 6.2) and to gather insights into the first three objectives that underpin the research – (1) to explore the concept of accountability from the perspective of Malaysian stakeholders and the stakeholders’ understanding of their relationship with local authorities; (2) to identify the type of information that a broad group of stakeholders expect to enable them to assess and monitor the performance of Malaysian local authorities (3) to identify the stakeholders’ perceptions of the importance of information items for disclosure. The questionnaire (see Appendix B) consisted of ten questions. The first three questions were designed to help achieve the first objective and focused on stakeholders’ perceptions of accountability for performance, the parties whom they think a local authority should be accountable to, and accountability in general. The next question (question four), which provided a list of potential disclosure items, was designed to achieve the second objective. In this question, the respondents were asked to evaluate and indicate which items they expected and considered necessary for assessing and monitoring the performance of local authorities and which items they would expect

to be disclosed in the annual reports of local authorities. The respondents were also asked to indicate their perceptions of the importance of disclosing each item by using a 5-point scale (0 for unimportant, 1 for minor importance, 2 for quite important, 3 for very important and 4 for extremely important) and to add any further items they thought worth considering. The remaining six questions were included to provide additional information regarding the receipt of annual reports including the source and the capacity in which the recipients received the reports; the use of the annual reports and performance information; and a profile of the respondents themselves. This information is necessary to support and complement the descriptive analysis and discussion of the findings. The questionnaire was circulated to the respondents (a broad range of stakeholders of Malaysian local authorities – representatives of respective state governments, the general public, councillors as well as local authorities' creditors, management and other employees) along with a covering letter (see Appendix C). The covering letter specified the objectives of the research, an explanation about the method of rating the items for disclosure importance and assurance of confidentiality and anonymity.

#### **6.2.1.2 Piloting the Questionnaire**

Piloting or pre-testing of questionnaires before actual circulation is done to ensure clarity of the questions asked and minimise ambiguities in wording or terms used. This increases the reliability, validity and practicality of the questionnaire (Morrison, 1993; Oppenheim, 1992). For this research, the questionnaire was developed and refined through consultation with the researcher's supervisors. Next, the questionnaire was translated into the Malay language. Since the potential participants ranged from the general public with various backgrounds and academic qualifications to highly-ranked officers of government organisations, it was expected that their English language proficiency might vary widely. Therefore, to ensure consistency it was decided to use the Malay language, the national language that each participant was assumed to be very well conversed in. Five potential stakeholder participants were then selected to test the questionnaire (an accountant of a state government office who was directly involved in reviewing and analysing the annual and performance reports of local authorities for the preparation of the state government annual reports; two accountants of two local authorities who were involved in preparing the annual financial and/or performance reports and two members of the general public). The questionnaire used for this purpose

was a dual language version (English and Malay languages). This was done to help improve translation and ensure its accuracy, to ensure clarity of the questions and minimise ambiguities in wording or terms used and to measure the time taken to fill in the questions. A meeting with each of the respondents involved in the questionnaire pilot testing was arranged and the questionnaire was forwarded to them to complete. During the meeting, participants asked the researcher for clarification of questions or terms that were not clear. Feedback from the participants gave the researcher insights into which questions needed adjustments or restructuring and which terms needed changing. In general, apart from some sentence restructuring and changes to a few terms, there were no major amendments to the questionnaire.

### **6.2.1.3 Questionnaire Administration**

There are two ways to administer a questionnaire. The first is self-administration, where respondents complete the questionnaires by themselves. This may involve a delivery and collection approach. The second is surveyor-administration, which may involve a telephone questionnaire (Saunders, Lewis & Thornhill, 1997). Self-administered questionnaires are one of the most commonly used methods for collecting data from respondents (Bourque & Fielder, 2003). According to Bourque and Fielder (2003), such questionnaires can be conducted within the presence of the surveyor or his/her representative. Their presence is to answer any questions related to the questionnaire (supervised-administration form). The self-administered questionnaire survey can also be in the form of un-supervised administration (without the presence of the surveyor or his/her representative) or in the form of semi-supervised administration (where the person who assists in the distribution and collection of the questionnaires is available to answer questions regarding the questionnaire and monitor the data collection effort at some minimal level).

In this research, the questionnaire was self-administered, supervised and semi-supervised. The researcher personally delivered the questionnaires to the target respondents. Whenever possible, and if the respondents were comfortable, the process of completing the questionnaires was supervised by the researcher who answered any relevant questions about the questionnaires. If the respondents preferred to complete the questionnaire without the presence of the researcher, the questionnaire was left with them to be completed and collected upon completion. The respondents were given a

certain time period (agreed by and convenient to them) to complete the questionnaires. After that period ended, the researcher personally collected the questionnaires from the respondents. If, at the time of collection the questionnaires were not ready to be collected, each related respondent was left with a stamped envelope with the researcher's address for mailing the completed questionnaire. The envelope was pre-coded and the code, the date the envelope was left, and the contact number of the respondent were recorded by the researcher for future monitoring and administration.

For the groups of management and employees and those to whom the authorities had direct access – their councillors and creditors – the director or officer of the Public Relations or Community Affairs Department was contacted for assistance with the circulation and collection of the questionnaires. The director/officers were given an explanation about the structure of the questionnaire and were invited to ask any questions related to parts of the questionnaire that were unclear to them. This was to ensure that they could provide answers should any questions related to the questionnaire be brought forward by the respondents. They were also requested to keep a record of the number of questionnaires distributed to and collected from or returned by each group of respondents. It was suggested that the directors/officers take between three to four weeks to administer the questionnaires. In addition, there was a mutual agreement between the researcher and the director/officer that the distribution should include representation from each group of potential respondents and the returned questionnaires from each group would be gathered by the director/officer and kept in different envelopes according to the group of stakeholders. The researcher then personally collected the questionnaires from the director or officer or, if this was thought impractical, left a pre-paid courier envelope for the director or officer to mail the completed questionnaires. This approach was deemed more appropriate to maximise the response rate as total dependence on mailing questionnaires alone can be claimed to have a relatively low response rate (Nachmias & Nachmias, 1996).

In order to achieve a maximum response rate, a follow-up stage was undertaken. A week before the collection date from the directors/officers, a follow-up call was made by the researcher to the director/officer to determine the status of the completion and return of the questionnaire distributed. Their help was requested to remind the respondents who had yet to complete the questionnaires and to return the questionnaire



as soon as possible. A follow-up call was also made to members of the public who had not yet returned the questionnaire.

#### **6.2.1.4 Sample Selection**

The local authorities located in Peninsular Malaysia are the focus of the current research<sup>13</sup>. The ninety-eight local authorities that are located in Peninsular Malaysia are made up of eight city councils/halls, thirty municipal councils and sixty district councils,<sup>14</sup> all of which vary in physical size, population and revenue base<sup>15</sup>. This research focused on city councils/halls and municipal councils (thirty-eight jurisdictions in total within which almost 40 percent of the Peninsular population reside). As one of the research objectives was to evaluate the annual reports of local authorities, the 'larger' local authorities were selected because they were deemed to have fewer constraints imposed on the production of their annual reports (Boyne & Law, 1991) and to have sufficient resources to prepare reports for accountability purposes (Ryan et al., 2002b). Connolly and Hyndman (2004) found a positive relationship between the extent of reporting of performance information and the size of the reporting entity. A premise of the current research was that the local authorities, as defined by the given demographical scope, were perceived to have a greater ability than their smaller sized counterparts to provide stakeholders with comprehensive annual reports comprising an extensive array of both financial and non-financial performance information.

Therefore, for the purpose of the questionnaire survey, the sample of participants selected was the key stakeholders related to the thirty-eight selected authorities. The stakeholders were identified based on the literature (as discussed in Chapter Five) and classified as being either internal or external stakeholders. The internal stakeholders included the management, employees and councillors of the local authorities. The samples of these groups of stakeholders were purposively selected by the

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<sup>13</sup> Since local authorities (LAs) located in East Malaysia are governed by different acts to the LAs in Peninsular Malaysia, they were excluded from an initial sample selection.

<sup>14</sup> As at October 2008, three district councils were reconstituted as a municipal council, but after the data for this research was collected.

<sup>15</sup> To be categorised as a city council/hall and municipal council, the population should be more than 500,000. The annual revenue should be more than MYR 100 million for the city council/hall. For the municipal council the population should be more than 150,000 and the annual revenue should be more than MYR20 million. For a smaller authority (district council), the population is less than 150,000 and the annual revenue is less than MYR 20 million (source: the Ministry of Housing and Local Government, [www.kpkt.gov.my](http://www.kpkt.gov.my))

director/officer who had agreed to assist with the distribution and collection of questionnaires.

The external stakeholders included the local authorities' respective state governments, creditors and the public. For the state government respondents, the accountants of eight state governments<sup>16</sup> to whom the local authorities report were selected. Accountants were selected because of their involvement with local authority reporting<sup>17</sup> and their knowledge of what might be included in the annual reports of local authorities. Creditor stakeholders were selected by the director/officer of each local authority's Community Affairs or Public Relations Department. For the public group, the samples were selected from among the people who lived or worked in the locality of the selected city and municipal councils. The selection of potential respondents was limited to those who had an identifiable relationship (as discussed in Chapter Four) with the local authorities and showed an interest<sup>18</sup> and willingness to participate in the survey. Those who met these criteria included customers at the local authorities' counters, people who resided within the locality of the local authority concerned (with the assistance of the community leaders), people who used facilities provided by the local authorities (such as public libraries, bus/taxi stations and recreation centres) and people who were renting premises owned by the authorities (for example, owners of businesses run in the shops/stalls provided by the authorities).

#### **6.2.1.5 Method of Data Analysis**

After responses from the questionnaires were collated, descriptive analysis was performed using tabulation to summarise the data and gain measures of central tendency (mean value). Mean importance weightings were determined for each information item. A non-parametric test was also applied to examine differences between the means of stakeholder groups. The results from these analyses are reported in Chapter Seven.

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<sup>16</sup> The thirty-eight LAs included in the survey are located in eleven states. However, one state government was not included in this survey because it was involved in the Delphi exercise. One further state government was involved in a pilot study and another was unable to participate in the required timeframe.

<sup>17</sup> Financial and other annual reports are forwarded by each local authority to its respective state government via the accountant of the local government department located within the state secretary office. The accountant has direct access to the reports.

<sup>18</sup> Studies that include only interested subjects in their work include Daniels & Daniels, 1991; Dixon, Coy, Buchanan & Tower, 1994; Jones et al., 1985. However, the inclusion of only interested subjects limits the conclusions that are drawn.

### 6.2.2 Stage Two: Delphi Exercise

A Delphi exercise is a means of soliciting opinions from a panel of interested or expert participants in order to achieve a consensus position (Linstone & Turoff, 1975). According to Rowe and Wright (1999), the key features of a Delphi exercise include anonymity (panel members' identities are unknown to each other, they work independently and are allowed to express opinions and judgments privately), iteration (the iteration of questionnaires over a number of rounds where members can change their opinions and judgments), controlled feedback (through which members are informed of the opinions of their anonymous colleagues), and the statistical aggregation of group response (usually comprising a mean or median value, presented as feedback). The Delphi technique has proved flexible enough to be employed in various areas including government, social studies, management and business (Day & Bobeva, 2005; Linstone & Turoff, 2002) and provides a structured format, systematic procedures, clear communication, statistical feedback and anonymity (Preble, 1983). The Delphi technique has the advantage that the participants are less subject to the 'halo effect' (where a highly respected participant influences other participants in giving opinions) and it can also reduce the 'bandwagon effect' which encourages agreement with the majority (Tersine & Riggs, 1976).

The Delphi exercise was employed in the research to achieve another objective of the research – to identify experts' perceptions of and agreement on the information necessary for assessing and monitoring the performance of Malaysian local authorities and the importance of such information for disclosure and to develop a special purpose disclosure index to assess the extent and quality of performance information published in annual reports of Malaysian local authorities. This exercise could act as a reconciliation process in finalising the information to be disclosed in the annual reports of local authorities. Likierman (1992) points out that there might be problems of reconciliation in identifying the needs of various users or stakeholders (in research such as this) because there might be conflicts in terms of the expectations of different parties. The Delphi exercise might be one technique that can be used to minimise conflicts because this exercise provides opportunities for the experts (who are familiar with local authority reporting) to articulate among themselves what information should be disclosed, until a kind of 'agreement' is reached.

The information items and their disclosure importance were finalised upon the achievement of greater consensus at the end of the Delphi exercise. They were then used in the development of a disclosure index.

The Delphi exercise employed in the current research (as undertaken at stage two represented in Figure 6.2) involved both quantitative and qualitative methods. The application of an MRT perspective allows both methods to be carried out in the exercise. The use of a series of questionnaires is a quantitative approach and the involvement of some form of human judgment input is a qualitative approach. The qualitative dimension involved informal interviews with panel members to seek their opinions and justifications regarding the disclosure of any additional information item and the perceived level of importance for that items disclosure. Steps of the Delphi exercise used in this research are shown in Figure 6.3.

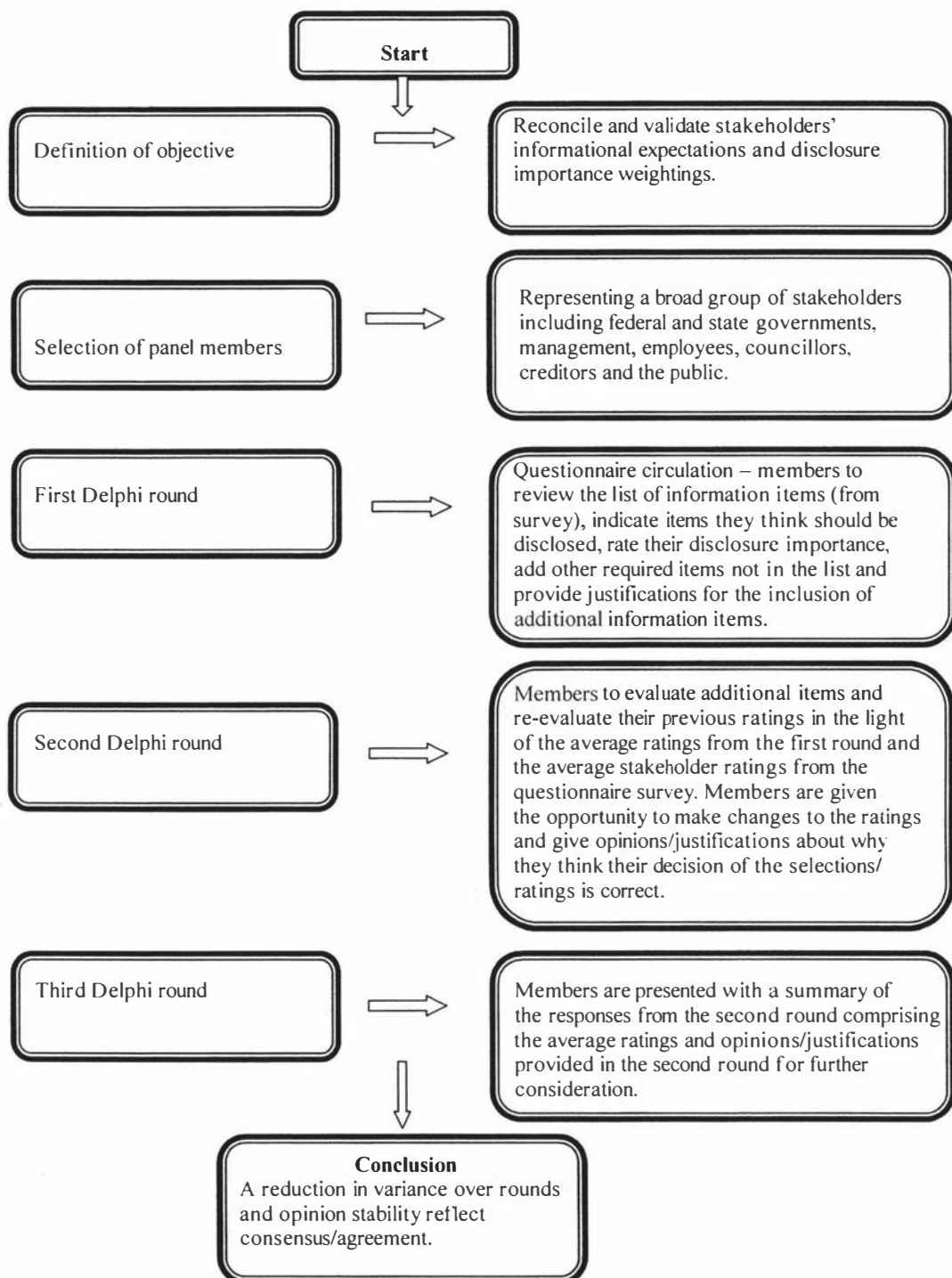
#### **6.2.2.1 Selection of the Delphi Panel Members**

Panel composition is critical in determining the effectiveness of the Delphi exercise (Tersine & Riggs, 1976). Farmer and Richman (1965) outline five basic criteria to be applied in selecting panel members. The panel members must:

- have a basic knowledge of the problem area and be able to apply that knowledge;
- have a good performance record in their particular area;
- possess a high degree of objectivity and rationality;
- have the time available to participate to the conclusion of the program; and
- be willing to give the amount of time and effort to do a thorough job of participation.

In relation to panel size, there are no specific guidelines for determining the optimum number of panel members – it may vary with the homogeneity of the respondent group and depend on the amount of work the researcher can handle (Tersine & Riggs, 1976). While Dalkey (cited in Linstone, 1978, p.296) suggests that seven is a suitable minimum panel size, Tersine and Riggs (1976) and Ziglio (1996) suggest ten to fifteen homogeneous members is sufficient for generating effective results.

**Figure 6.3: Steps of the Delphi Exercise**



From a review of a study by Preble (1983) on the public sector use of the Delphi technique, it is noted that a variety of panel sizes are used, depending on the purpose of the studies. For instance, in Kennington's (1977) study, the panel size was forty-seven, Fry (1980) used seventeen members, Smil (1977) used twenty members and Coy and Dixon's study (2004) involved thirty-nine panel members.

As there is no restriction on the size of the panel members or participants, in this research the Delphi exercise involved twelve panel members selected purposively. The composition of the Delphi panel is shown in Table 6.1.

**Table 6.1: Composition of Delphi Panel**

<b>Number</b>	<b>Member Description</b>
1	Representative of the National Audit Department (auditor general department)
1	Local authority supplier
1	Representative of the Ministry of Housing and Local Government
2	Management
1	Councillor
1	Local authority accountant
2	Members of the public (including one who is involved in a citizen's association that represents one of the interest groups)
2	Representatives of state government offices (the local government unit)
1	Politician

It was thought that the members selected had at least a basic knowledge of the problem areas and were able to apply that knowledge, as well as possessing a high degree of objectivity and rationality. They indicated that they had the time available to participate to the conclusion of the exercise and were willing to give the amount of effort required to do a thorough job of participation. These are consistent with the ideal panel member criteria outlined by Tersine and Riggs (1976).

In addition, based on their current positions/roles and experiences, the members selected were assumed to be homogeneous in terms of their knowledge on the nature of local authorities, local authority functions and reporting (see Chapter Eight for the details of Delphi panel). Based on Tersine and Riggs (1976), since the panel can be deemed homogeneous, the size of twelve panel members is considered sufficient.

#### **6.2.2.2 Questionnaire Iteration**

The questionnaire used in the Delphi exercise consisted of a list of information items identified by the broad group of stakeholders during the questionnaire survey in stage one of the empirical investigation (as shown in Figure 6.2). The questionnaire was designed to obtain opinions from the panel members on the information necessary for assessing and monitoring the performance of local authorities and the relative importance of each information for disclosure (using a five-point scale of 0 = unimportant; 1 = minor importance, 2 = quite important, 3 = very important and 4 = extremely important). Opinions and justifications were also sought on other items the panel thought should be disclosed and the disclosure importance of those items.

Other activities carried out during the Delphi exercise (as shown in Figure 6.3) included collection of the questionnaires and summarisation of the responses gathered from the first and subsequent rounds. The summarised information was presented to panel members who then added further opinions and had the opportunity to reconsider their position. This step was repeated until stability in responses was reached. A reduction in variance over rounds and response stability reflects consensus (Linstone, 1978; Rowe & Wright, 1999). Furthermore, informal conversational interviews in which questions emerged from the immediate context (Cohen et al., 2000) were also conducted in the second and third rounds. In the interviews, panel members were asked why they believed their selections of information and their ratings were appropriate. The opinions and justifications were written down and read out to the panel members in order to ensure validity and reliability of the transcriptions.

The Delphi exercise in this research involved three rounds (see Figure 6.3) and at the end of the third round, stability in responses was deemed to have been reached. There is no common agreement on the number of rounds that should be included in a Delphi exercise but it seldom goes beyond one or two iterations (Rowe & Wright, 1999). The responses received and a summary of the responses from each round of the Delphi exercise are reported in Chapter Eight.

#### **6.2.2.3 Method of Data Analysis**

Analysis of data from the Delphi exercise mainly involved the collation of questionnaire responses. The importance weightings given by the panel members were collated and means and standard deviations were determined for each information item at the end of

each round of the Delphi exercise. Justifications and opinions given by the particular panel members were summarised, classified and structured before presenting them to all members in the subsequent Delphi rounds.

The data collection and analysis processes in the Delphi exercise reconciled and verified stakeholders' expected information and disclosure importance weightings to be used in the index. The findings from the Delphi exercise are reported in Chapter Eight. The findings or outputs led to the development of the disclosure index used for a content analysis of annual reports.

### **6.2.3 Stage Three: Annual Report Content Analysis**

Following prior studies (see Appendix A) the current research used a disclosure index for content analysis of annual reports in order to measure level of disclosure. The analysis was carried out at the final stage in order to achieve the final objectives – to evaluate the extent and quality of disclosure of performance reporting within the annual reports by applying the developed disclosure index, to ascertain whether the informational and disclosure expectations of stakeholders are being met and to ascertain the extent to which accountability is being discharged through performance reporting. Before the content analysis of annual reports could be undertaken, a disclosure index was developed. The following sub-section discusses the development of the disclosure index.

#### **6.2.3.1 Development of the Disclosure Index**

The development of the disclosure index was based on the findings or outputs from the questionnaire survey and the Delphi exercise. The process of the development of the disclosure index is summarised in Figure 6.4.



**Figure 6.4: Disclosure Index Development Process**

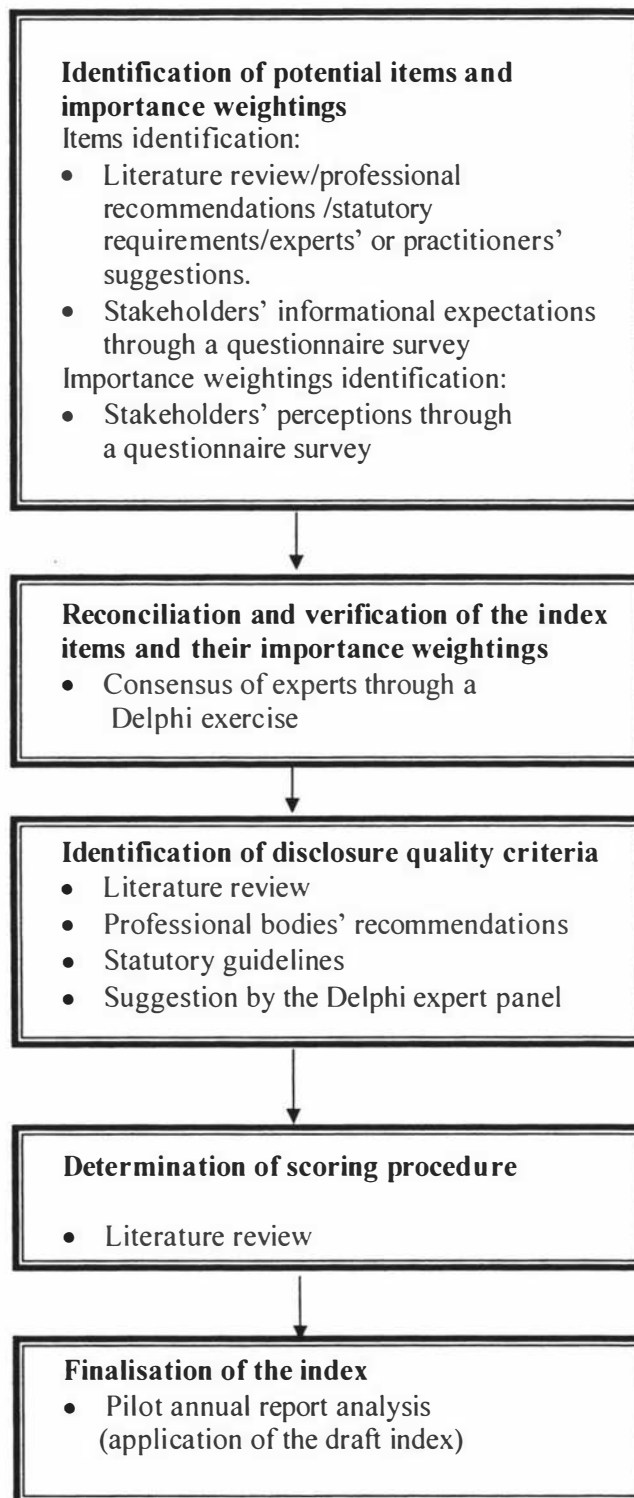


Figure 6.4 shows that the process of the disclosure index development begins with the identification of potential items based on an extensive review of literature, professional and expert recommendations, statutory requirements and stakeholders' informational expectations that were obtained through a questionnaire survey (see Section 6.2.1) and the identification of disclosure importance weightings. The weightings were based on the stakeholders' perceptions that were also acquired from the questionnaire survey. A mean of each of the stakeholders' responses on importance weightings was calculated and used as a summary of all stakeholder groups' perceptions. The identified potential index items and the items' importance weightings were presented to the expert panel in a Delphi exercise. Through the Delphi exercise the potential index items and their disclosure importance weightings were reconciled and verified. The reconciliation and verification of the items and importance weightings were achieved through the process of questionnaire iterations and the panel opinions-seeking involved in the Delphi exercise.

The development of the disclosure index then involved the identification of quality criteria based on a review of literature, recommendations of professional bodies, statutory guidelines and suggestions of Delphi members. The criteria were used for assessing disclosure quality. Before the disclosure index could be finalised (the final process), a pilot analysis of a small sample of annual reports was carried out. The details of each step in the development of the index are as follows:

#### ***Identification of Potential Index Items and Importance Weightings***

As there is no general theory on item selection (Wallace, 1988a), the selection of information items is based on the following criteria:

1. The inclusion of such items in previous research studies of disclosure indices (for example, Banks, Fisher & Nelson, 1997; Robbins & Austin, 1986; Ryan et al., 2002b – see Appendix D), previous studies of users' information needs (for example, Anthony, 1978; Clark, 2003; Daniels & Daniels, 1991; Tayib et al., 1999; – see Appendix D), and other relevant studies of performance reporting (for example, Boyne, 2002; Connolly & Hyndman, 2004; Pollanen, 2005 – see Appendix D).
2. The item is recommended by a professional body - CIPFA (1993).

3. The item is required to be disclosed in terms of the Treasury Circular No.4/2007, the Financial Reporting Standards of Malaysia (these two statutory requirements have been used by local authorities as guidelines in accounting and reporting) and the Public Administration Development Circular No2/2005.
4. The item is suggested by experts (accountants of Malaysian local authorities, an internal auditor of a state government and researchers with public sector research experience).

From a review of the literature, the Local Government Accountability (LGA) index developed by Ryan et al. (2002b) which was adapted from the Modified Accountability Index of Dixon, Coy & Tower, (1991) was used as a basis in the selection of potential items. The LGA index consists of twenty-two items under three sections – overview, performance and financial information (see Appendix D).

In developing the current research disclosure index, the section of performance measurement of the LGA index was expanded by including a list of performance measures as recommended by previous studies (see Appendix D).

Based on the review of prior studies, thirty items were selected for the development of the current research disclosure index. These items were categorised into four sections – overview and operational, non-financial performance, financial information and performance, and future-related information.

**Overview and operational**

*Statement of objectives*

*Mayor's/president's report*

*Review of operations*

*Organisation (corporate) structure*

*Internal control*

*Environment report*

*Personnel*

*Occupational health & safety*

*Equal employment opportunity*

*Summary facts and figures*

**Non-financial performance**

*Goals and objectives of services/activities*

*Non-financial performance targets*

*Performance measurement:*

*Input measures*

*Output measures*

*Impact measures*

*Efficiency measures*

*Effectiveness measures*

*Client/customer satisfaction measures*

**Financial information/performance**

*Auditor's report*

*Statement of financial performance/statement of revenue and expenditure*

*Statement of financial position/balance sheet*

*Statement of cash flow*

*Accounting policies*

*Financial review*

*Financial performance ratios*

*Actual to budget comparison*

*Information about cost of service/activity*

**Future-related Information**

*Future plans*

*Future performance targets*

*Information pertaining to future capital improvements*

While the LGA index includes financial statements (with no detailed specification of items of the statements, except for non-current assets, investments, commitments and contingencies, and remuneration), the detailed content of financial statements was considered in the current research. The inclusion was based on financial statement (revenue and expenditure accounts and balance sheet) items recommended by the CIPFA Code of Practice on Local Authority Accounting for Great Britain, 1993 (which was consistent with Coombs & Tayib's 2000 study). The inclusion was also based on the Treasury Circular No. 4/2007 (TC) and Financial Reporting Standards (FRS) of Malaysia that have been used by local authorities as a main reference point for accounting and reporting.

Detailed items for the Statement of Revenue and Expenditure, and the Balance Sheet that were based on the CIPFA Code of Practice on Local Authority Accounting for Great Britain are as follows:

**Statement of revenue and expenditure items***Revenue according to activities or services rendered**Revenue according to source of income**Gross expenditure according to services**Net expenditure according to services***Balance sheet items***Fixed assets (book value):**Operational assets**Non-operational assets**Community assets**Infrastructure assets**Total fixed assets**Deferred charges**Long term investments**Long term debtors**Current assets**Current liabilities**Long term borrowings**Deferred liabilities**Deferred credits – government grants**Reserves*

Based on the FRS of Malaysia, four additional items were added to the statement of cash flows and another four were added to the statement of revenue and expenditure. Two additional items were included in the overview and operational section based on the TC. Further, another performance measure was added based on the Public Administration Development Circular No. 2/2005: Guidelines to establish key performance indicators and to implement performance measurement in government agencies (PADC). Based on these three statutory requirements that have been used by local authorities as a major reference point, the following items were added:

**Statement of cash flows items***Operating cash flows**Investing cash flows**Financing cash flows**Year-end cash and cash equivalents***Statement of revenue and expenditure items***Expenditure classified by nature or function**Total expenditure**Total revenue**Total excess/surplus***Overview and operational***Problems in undertaking services/activities**Reasons for current status of performance achievement***Non-financial performance***Productivity measure*

All the items selected above (based on prior studies, the CIPFA Code, the TC, the FRS and the PADC) were forwarded to experts (including researchers with public sector research experience, the head of the internal audit office of a state government and two Malaysian local authority accountants) to seek their opinions on other items they thought should be added as potential disclosure items. The head of the internal audit office suggested three additional items and specified two financial performance ratios as follows:

**Overview and operational**

*Efforts in generating more revenue*

**Non-financial performance**

*Comparison between actual and target achievement*

*Comparison between current and previous years achievement*

**Financial information/performance – financial performance ratios**

*Revenue to number of staff ratio*

*Total asset to number of staff ratio*

Furthermore, the two accountants suggested the following additional items:

**Overview and operational**

*Acknowledgment/award received from the state and federal government*

*Training programmes for staff*

**Non-financial performance**

*Report on the use of government grants*

*Report on performance of contractors responsible for providing contracted services*

*Achievement of specific programmes/activities ordered by the state and federal government*

**Financial information/performance – financial performance ratios**

*Return on assets ratio*

*Revenue to cost of service ratio*

Based on the researchers' opinions, *fixed assets at their market value* were added to balance sheet items as follows:

**Balance sheet items:**

*Fixed assets (market value):*

*Operational assets*

*Non-operational assets*

*Community assets*

*Infrastructure assets*

*Total fixed assets*

In all, seventy-one potential disclosure items were identified at this stage, based on the four selection criteria stated earlier. These items were then included in the questionnaire that was used to identify the informational expectations of stakeholders of local authorities for assessing and monitoring the performance of local authorities and the stakeholders' perceptions of the relative importance of each item for disclosure in annual reports of local authorities. The disclosure items and their importance weightings identified by the stakeholders are presented and discussed in the next chapter, as part of the findings of the questionnaire survey.

### ***Reconciliation and Verification of the Information Items and Importance Weightings***

The Delphi exercise can act as reconciliation and verification process. Through the exercise, the information and disclosure expectations of the broad group of stakeholders were reconciled. During the exercise, the panel members were also required to add other items (with their importance weightings) that they thought should be disclosed by the local authorities. This resulted in the agreement of all the expert panel members on a final list of items and importance weightings to be included in the disclosure index. The agreement or consensus is considered in this research as a verification of the information items and importance weightings that were included in the draft disclosure index. The items and the importance weightings are presented in the next chapter on the findings of the empirical investigation.

### ***Identification of Quality Criteria***

Once the index items and their respective importance weightings were determined, quality criteria were identified. The criteria were used to assess the quality of disclosure of information identified in the earlier processes. As discussed in Chapter Five, there is no agreement in prior studies on the definition of disclosure quality. Buzby (1974) referred to the quality of disclosure as adequacy. Adequacy has been referred to as the degree of inclusion in Barrett's (1976) and Al-Razeen and Karbhari's (2004) studies. In addition, disclosure quality has also been referred to as completeness or full disclosure (for example, Imhoff, 1992) and comprehensiveness (for example, Hooks et al., 2002b; Ryan et al., 2002b; Wallace et al., 1999). Chapter Five has provided a detailed review of these studies.

As discussed in Chapter Five, the current research follows the approach of Buzby (1974), Barrett (1976, 1977) and Al-Razeen and Karbhari (2004), where the information items identified from the earlier process were divided into two categories – a category of single-information items and a category of multiple-information items. This approach retains the scores given for ‘disclosure importance’ for all items. The score for importance has been accepted in prior studies as a proxy of disclosure quality (for example, Naser & Nuseibeh, 2003). For items which were considered single-information items, the full score of importance weighting was allocated if the items were disclosed and a zero score was allocated for non-disclosure. For multiple-information items, credit is given for degrees of detail or inclusion of sub-elements. In the current research, the degree of detail was determined by the inclusion of pre-determined quality criteria. This distinguishes between poor and excellent disclosure of individual items in this category.

This approach has a number of advantages. It improves the importance weighting system used to determine the level of disclosure of individual items, by taking into account the detail of those particular items. It also minimises subjectivity in deciding upon quality criteria in measuring the degree of detail of the disclosure as the criteria were only determined for multiple-information items. Items that were classified as single-information (self-contained) items represented a single piece of information which was either disclosed or not-disclosed and therefore did not require selection of quality criteria. By specifying the quality criteria of multiple-information items based on prior studies and professional bodies’ recommendations, it is expected that the level of subjectivity of the scoring process would be reduced and a more reliable measure of the level of disclosure could be produced.

The quality criteria for each multiple-information items were identified from the following sources:

1. Prior studies (for example, Christiaens & Van Peteghem, 2007; Coy and Dixon, 2004; Gore, 2004; Hooks et al., 2001; Nelson et al., 2003; Ryan et al., 2002b; Tooley & Guthrie, 2007; Wallace et. al. 1999).
2. Professional bodies’ recommendations (Governmental Accounting Standards Board of the United States – GASB: Reporting performance information, 2003; OAG of the UK, 2000; OAG of New Zealand: Reporting public sector



performance, 2002; CCAF-FCVI: Principles for building a public performance report: a discussion paper from Canada's Legislative Audit Community, 2002; OAG of British Columbia, 2003).

3. Statutory guidelines (Public Administration Development Circular, No. 2/2005 of the Prime Minister Department of Malaysia; Treasury Circular No.4/2007).
4. Suggestions by the Delphi expert panel.

Similar to Buzby (1974), the researcher used her own judgment in selecting the most important quality criteria and the list of the criteria for each of the applicable items could only be regarded as a type of minimum disclosure set. The detailed quality criteria that were identified and included in the disclosure index are presented in Chapter Eight. The following sub-section details the scoring procedure that was used in the application of the disclosure index.

### ***Scoring Procedure***

A scoring sheet that consisted of information items identified in the earlier stage was used to facilitate the scoring process and to ensure consistency of scoring between the authorities. A two-stage scoring process was involved.

- ***The Extent and Quality of Disclosure***

The scoring of the extent of disclosure was based on (i) the presence or absence of each of the single-information items and (ii) the presence or absence and the degree of detail of each of the multiple-information items. A score of '1' was given if an item in the disclosure index had been disclosed in the annual report and a score of '0' was allocated for non-disclosure. If an item was not applicable to a local authority's annual report, the item was scored as 'n/a' and excluded from the total possible score for the annual report.

The multiple-information items were further scored by degree of detail based on the amount of pre-determined quality criteria included or disclosed. In this regard, different scales were used. An item with five criteria, for example, *Summary Facts and Figures – (1) Reference to each service/activity achievement, (2) At least three year trends, (3) Brief discussion of trends, (4) Separate titled section, (5) Use of illustrations* - would receive an allocated score out of five. If an item that was considered to have three

criteria was disclosed with only two criteria, it would be allocated with a score of two out of three.

Studies that have also used different scales in the scoring of disclosure include Van Staden and Hooks (2007); and Wallace et al. (1999). Van Staden and Hooks (2007) employed 5-point, 3-point and 2-point scales in measuring environmental disclosures and Wallace et al. (1999) awarded different point scales to different categories of cash flows and other disclosures on cash flows: 8–12 points for operating cash flows, 4–16 points for investing and financing cash flows, and 0–10 points for other disclosures of cash flow. As Wallace et al. (1999) noted, “distinction in point scales is essential in a study which is concerned with rewarding the extent of detail in the annual report” (p.199). Examples of the quality assessment on items reported in the annual reports of local authorities are presented in Chapter Nine.

- ***Weighted Score***

A weighted score was computed for each individual item and totalled to give an overall score.

*Individual Item*

The weighted score of each item was calculated as follows:

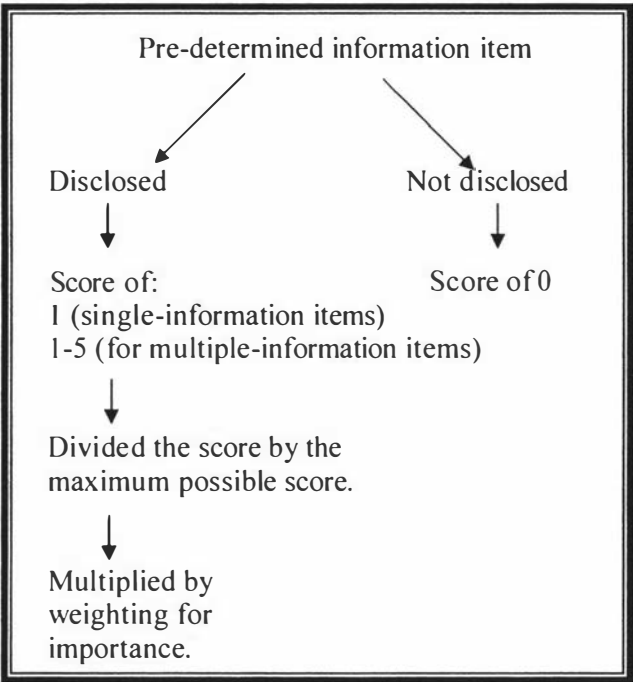
Weighted score (WS)	=	$\frac{\text{Actual score (AS)}}{\text{Maximum possible score (MPS)}} \times \text{Weighting for importance (WI)}$
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For single-information items, if each of the items was disclosed, the item was allocated with a WS equivalent to the item’s relative importance weighting. The weighted score of each item reflects both the extent and importance of disclosure of an item in a local authority’s annual report.

In respect of multiple-information items, if each of the items was disclosed, the item was awarded a WS equivalent to the degree of detail/inclusion of pre-determined quality criteria and multiplied by the item’s relative importance. For example, if an item contains five criteria but only three criteria were disclosed, the WS is equivalent to the proportion of the included criteria over the maximum criteria allocated to the item,

multiplied by the item's importance weighting. Figure 6.5 provides a diagrammatical representation of the scoring procedure.

**Figure 6.5: The Scoring Procedure**



*Overall Score for Extent and Quality of Reporting by Each Local Authority*

The overall score (disclosure index weighted score) was obtained by calculating the sum of the allocated weighted scores of all items and dividing the sum by the total possible index score. This score was then converted to a percentage; that is, the overall score was a percentage of the total possible index score that could be obtained. The overall score indicated the extent and quality of reporting by each local authority. Accordingly, it indicated whether the current content of the annual report of a local authority was sufficient to evaluate the performance of the authority and satisfy the information expectations of its stakeholders.

In order to minimise the subjectivity of allocating an appropriate score and to ensure consistency in scoring, a second, independent scorer was also involved<sup>19</sup>. The second scorer has an accounting background, has working experience in a Malaysian public sector entity and is familiar with Malaysian public sector reporting. Having determined

<sup>19</sup> Further details of the verification process are included in Chapter 9, Section 9.2.

the scoring procedure, the draft disclosure index was tested in a trial analysis, before the index could be finalised.

### ***Finalisation of the Disclosure Index***

The draft disclosure index was pilot tested on the 2003, 2004 and 2005 annual reports of three randomly selected local authorities. The purpose of the pilot test was to assess the ability of the disclosure index to provide a numerical representation (score) of the extent and quality of disclosure for a predetermined list of information items. In addition, the pilot analysis was carried out to assess the ability of the index to distinguish between various levels of reporting. The appropriateness of the draft index was then discussed with two other researchers, experienced in developing disclosure indices and scoring annual report disclosures. After feedback from the researchers had been considered, the index was finalised and made ready for application to the full sample of annual reports.

### **6.2.3.2 Sample of Annual Reports**

All thirty-eight local authorities selected as research samples were approached in order to identify whether they issued annual reports which include both financial and service performance reports. This identification was necessary because, to date, there is no statutory requirement for local authorities to extend the reporting of performance beyond the traditional financial statements<sup>20</sup>. Therefore, only financial reports are required by Act 171 to be published annually by all local authorities. The publishing of either annual reports that include both financial statements and service performance reports or a service report as a stand-alone report is done on a voluntary basis. Local authorities that issue annual reports in which reports of financial and service performance are included or reports in two separate documents (an annual financial report and an annual service report) were asked to provide reports for the years 2003, 2004 and 2005. These were identified as the latest reports available during the period of data collection (August to November 2006) and therefore, the findings are limited to up to the year 2005. The year 2005 is included following a requirement by the Malaysian government for its agencies to develop and implement key performance indicators (KPI) beginning April that year. However, the requirement was imposed on local authorities

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<sup>20</sup> The current statutory requirement – the Local Government Act 1976 (Act 171), sections 53 and 54, only requires Malaysian local authorities to keep proper records and books of account and that annual financial reports should be prepared.

depending on the acceptance by their respective state governments (Public Administration Development Circular, No. 2/2005). Although, to date, the reporting of KPIs is only required to be made to the management and the government (not to all stakeholders), the increased emphasis on performance was expected to be reflected in the annual reports beginning the year ended 2005. The 2005 report analysis findings may become a basis for future research on evaluation of annual reports of local authorities where KPIs have been fully developed and implemented by all local authorities and when KPIs have to be reported to all stakeholders.

### **6.3 CHAPTER SUMMARY**

The empirical investigations of the current research involved a questionnaire survey, a Delphi exercise and a content analysis of annual reports as methods for data collection. The stages of data collection were undertaken sequentially, in that the findings from the questionnaire survey were used in the Delphi exercise and the findings from that exercise were used to develop the disclosure index which was then used in the final stage of the research process – evaluation of annual reports. The findings from the questionnaire survey which were related to stakeholder information expectations were used in the Delphi exercise. At the end of the Delphi exercise a list of reconciled and verified information items and the items' weightings for disclosure importance were derived. The process was then followed by an identification of quality criteria for items that were deemed to have detailed information. These criteria distinguish the level of detail of such items. The disclosure importance and the detail of information were used in the current research to indicate the quality of disclosure. The list of items with the importance weightings of each of the items and the criteria involved became the draft disclosure index. After the draft index had been pilot tested, the index was finalised and ready for use in the content analysis of the sampled annual reports.

Having completed the empirical investigations through a questionnaire survey, a Delphi exercise and a content analysis of annual reports, the 'methodological position' of the application of a middle-range thinking perspective in this current research was satisfied. The next three chapters report the findings from the questionnaire survey, the Delphi exercise and the annual report content analysis respectively.

## CHAPTER SEVEN

### RESULTS AND DISCUSSION: STAKEHOLDERS' PERCEPTIONS OF THE ACCOUNTABILITY OF MALAYSIAN LOCAL AUTHORITIES AND DISCLOSURE OF INFORMATION NECESSARY FOR ASSESSING THE PERFORMANCE OF LOCAL AUTHORITIES

#### 7.1 INTRODUCTION

As discussed in the previous chapter, this research involved a three-stage research method for data collection and analysis. This chapter reports the results obtained from a questionnaire survey carried out at the first stage of the research process. The questionnaire used in the survey was designed to achieve the first three research objectives as outlined in the introductory chapter and to answer the following research questions:

*Research Question 1*

What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities?

*Research Question 2*

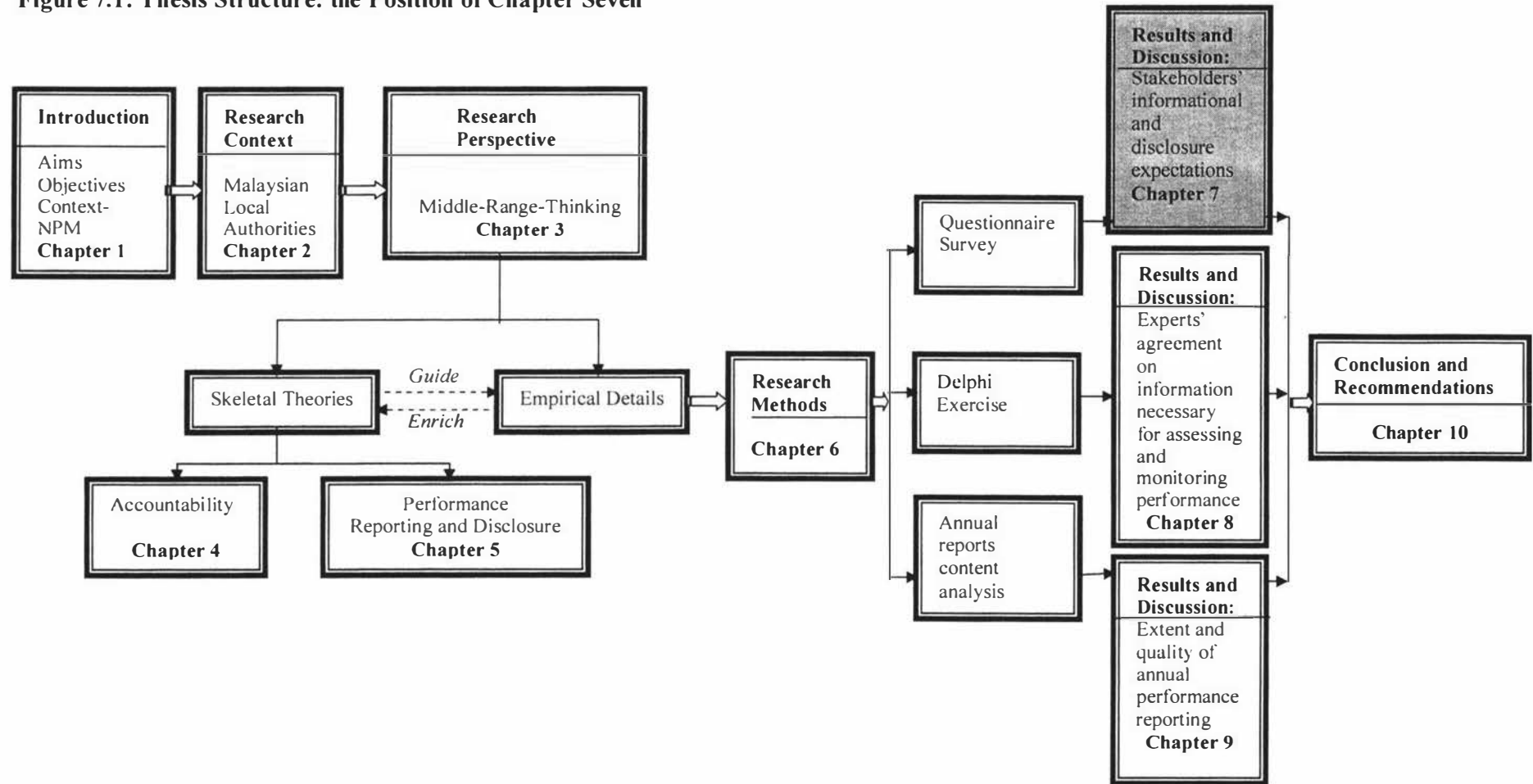
What type of item do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities?

*Research Question 3*

How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders?

Section 7.2 reports on the respondents' profiles and the receipt and use of annual reports. The stakeholders' understanding of the accountability of Malaysian local authorities is reported in Section 7.3. Section 7.4 reports the stakeholders' expectations in respect of information necessary for assessing and monitoring the performance of local authorities and perceptions of the importance of such information for disclosure. Discussion of the results is presented in Section 7.5. Finally, Section 7.6 summarises the chapter. The way in which this chapter fits into the overall framework of the thesis is shown in Figure 7.1.

**Figure 7.1: Thesis Structure: the Position of Chapter Seven**



## 7.2 RESPONSE SUMMARY

In all, 1,738 questionnaires were distributed to potential respondents – the public, councillors, state government representatives, local authority management, other employees, and creditors. These respondents were regarded as being among the key stakeholders of local authorities as identified by prior studies (and discussed in Chapter Five). The selection of the respondents and the administration of the questionnaire were outlined in Chapter Six. Of the 1,738 questionnaires distributed, 722 were returned of which 666 were considered sufficiently complete for use in data analyses<sup>21</sup>. This constitutes an overall response rate of 38 percent.

Table 7.1 shows a summary of the number of questionnaires distributed, the number of useable responses and the response rate.

**Table 7.1: Response Summary**

	Number of Questionnaires Distributed	Number of Useable Responses	Response Rate (%)
<b>Internal stakeholders:</b>			
Employees	490	144	29.4
Management	286	92	32.2
Councillors	229	13	5.7
<b>Total internal</b>	<b>1005</b>	<b>249</b>	<b>24.7%</b>
<b>External stakeholders:</b>			
Public	620	399	64.4
Creditors	105	12	11.4
State government representatives	8	6	75.0
<b>Total external</b>	<b>733</b>	<b>417</b>	<b>56.9%</b>
<b>Total</b>	<b>1738</b>	<b>666</b>	<b>38.3%</b>

The response rate of 38.3 percent compares favourably with previous similar studies (Mack and Ryan, 2004 – 21.9 percent; Wallace, 1988b – 39.2 percent; Firth, 1978 – 38 percent; Buzby, 1974 – 26 percent). Although the response rate of 38.3 percent is considered acceptable for this type of instrument, a non-response bias might affect any

<sup>21</sup> Unusable responses arose where the questionnaires were incomplete (i.e. where the respondents left one or more questions unanswered). However, if a question was answered but there were phrases or propositions within a question which were left blank, the questionnaire was still counted as a usable response.



conclusion which may be drawn from the sample. A test for non-response bias was carried out. Following Oppenheim (1996), late respondents are considered to be non-respondents. In this regard, the responses of the last thirty<sup>22</sup> questionnaires received were compared with the responses of the first thirty questionnaires received to identify if any significant difference existed between the two sets. A Mann-Whitney test detected no significant difference between late and early responses to the two issues concerning the type of information considered relevant for monitoring and assessing local authority performance and the importance of such information for disclosure, suggesting that non-response bias would not be a serious problem.

Consistent with previous studies (for example, Boyne et al., 2002; Flack & Ryan, 2004; Steccolini, 2004), the stakeholders in this research were classified as being either internal or external stakeholders. Employees, management and councillors were classified as internal stakeholders, while the public, creditors and state government representatives were classified as external stakeholders. The small samples involved for the councillors, creditors and state government groups may result in the non-parametric tests lacking statistical power (Motulsky, 1995), and it is acknowledged that the results based on each of the six individual groups of stakeholders are limited in the conclusions that are drawn. Therefore, the classification into internal and external groups is considered appropriate and sufficient to draw valid conclusions.

A demographic profile of the respondents is reported in Table 7.2. The respondents comprised individuals from various backgrounds. The demographic data shows that the majority of respondents were males and the majority of respondents were below forty years of age. All of the respondents held at least a secondary school certificate and it was therefore expected that the respondents had no difficulty in interpreting the questionnaire. The respondents were involved in various areas of employment – almost 30 percent were professional (for example, accountants, engineers and architects) or management and executives; about 10 percent were technicians and almost 30 percent worked in administration or clerical areas. The majority of the respondents were middle

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<sup>22</sup> Questionnaires were returned individually to the researcher or in groups by the contact persons. The date of receipt of every questionnaire was recorded. Questionnaires which were received in batch were recorded with the same receipt date.

income earners<sup>23</sup> and about 28 percent of the respondents had a monthly gross income of more than MYR2500.

**Table 7.2: Demographic Profile**

		Frequency	Percentage (%) (n=666)
Gender:	Male	369	55.4
	Female	297	44.6
		666	100%
Age:	30 and below	274	41.1
	31–40	243	36.5
	41–50	127	19.1
	51 and above	22	3.3
		666	100%
Academic Qualification:	PhD	5	0.8
	Masters degree	8	1.2
	Bachelors degree	128	19.2
	Diploma	190	28.5
	Other <sup>1</sup>	335	50.3
		666	100%
Employment:	Professional	55	8.3
	Management/executive	126	18.9
	Technical	61	9.2
	Administration/clerical	191	28.7
	Other <sup>2</sup>	233	35.0
		666	100%
Monthly Gross income: (MYR)	Below 500	39	5.9
	500–1,000	184	27.6
	1,001–2,500	258	38.7
	2,501–5,000	154	23.1
	Above 5,000	29	4.4
	No response	2	0.3
		666	100%

Note: <sup>1</sup>Including professional qualifications, technical certificates and *STPM* (Higher School Education Certificate) and *SPM* (Malaysian Certificate of Education).

<sup>2</sup>Including respondents who were self-employed or unemployed.

Only 44 percent of the total respondent stakeholders indicated that they received a local authority's annual report<sup>24</sup>. The majority of them received the reports directly from the local authorities. Other sources included public libraries (8.5%) and local authority

<sup>23</sup> Those earning between MYR1200 and MYR3500 per month are considered as middle-income households and the average monthly gross income per household was between MYR2400 and MYR3000 over the period 1999 and 2002 (PricewaterhouseCoopers, 2006).

<sup>24</sup> A limitation of this research is that the conceptualised meaning of annual report – a comprehensive report that includes financial report, service report and other information related to local authorities – was not stated in the questionnaire. The respondents may have interpreted the term 'annual report' as a financial report or a service/activity report. Therefore, the responses obtained from the questionnaire survey only provide a general indication about the receipt and use of annual reports of local authorities. The difference in interpretation may be a result of unclear statutory requirements such as Section 54(4) of Act 171, which requires the publication of annual reports but does not make clear the content of the reports (Coombs and Tayib, 2000).

websites<sup>25</sup> (32%). Table 7.3 shows information about the receipt of annual reports and the use of annual reports in general and performance information specifically.

**Table 7.3: The Receipt of Annual Reports and the Use of Annual Reports and Performance Information**

	Frequency	Percentage
Indicated the receipt of annual reports (n=666)	290	43.5%
Sources (n=290):		
Direct from local authority	217	74.8%
Local authority's websites	93	32.1%
Public libraries	25	8.6%
(more than one answer was indicated)		
Purpose of using/reviewing annual reports (n=290):		
To review the report of services/activities undertaken	223	76.9%
To understand local authorities' background and operations	197	67.9%
To analyse local authorities' financial statements	162	55.9%
(more than one answer was indicated)		
Purpose of using/reviewing performance information (n=290):		
Performance appraisal	205	70.7%
Accountability	168	57.9%
Improvement of public service performance	165	56.9%
Decision making	101	34.8%
Public participation	87	30.0%
(more than one answer was indicated)		

In addition, with an opportunity to indicate more than one answer and to specify other answers not stated in the questionnaire, 77 percent of the respondents indicated the purpose of using the reports was to *'review the report on services or activities undertaken by local authorities'*, 68 percent indicated the purpose was to *'understand local authorities' background and operations'*, and 56 percent indicated the purpose was to *'analyse local authorities' financial statements'*. No other responses were given to the question. With regards to the use of performance information included in the local authorities' annual reports, the majority of respondents (71 percent) indicated *'performance appraisal'* as the main purpose. Other purposes included *'accountability'* (58 percent); *'improvement of public service performance'* (57 percent); *'decision making'* (35 percent) and *'public participation'* (30 percent).

<sup>25</sup> Based on the researcher attempts, out of 30 local authorities, only one was found to publish its annual reports in a comprehensive form on its website. Others have provided non-financial information such as the services provided, background information and statement of objectives. Therefore it was assumed that the response might not refer to comprehensive annual reports but only non-financial information.

The results indicate the importance and usefulness of annual reports of local authorities and that the performance information disclosed in the annual reports is clear but that the accessibility of the annual reports was limited. Although the actual receipt and use of annual reports were found to be limited, since the current research was carried out within the framework of accountability not only the views of the recipients<sup>26</sup> of annual reports are relevant. The expectations and preferences of local authority stakeholders are of key importance to the research. This is consistent with a 'rights-based' concept of accountability (Pallot, 1992, p. 40; Stanton, 1997) which recognises the importance and needs of reporting when there is an accountability relationship whether or not there is a demand for it (Van Peurse, 1999). The next section reports perceptions of Malaysian local authorities' stakeholders of accountability of local authorities.

### 7.3 ACCOUNTABILITY OF LOCAL AUTHORITIES

With reference to **Research Question 1**: What do stakeholders of Malaysian local authorities understand by the term 'accountability' with regards to local authorities?, the stakeholders were asked their views on (1) whether local authorities should be accountable for their performance and if so, why; (2) who local authorities are accountable to for their performance, and (3) their understanding of the term accountability.

#### 7.3.1 Accountability of Local Authorities for Performance

From the questionnaire responses, it was found that all respondent stakeholders indicated that local authorities should be accountable for their performance, and a variety of reasons for this were put forward. As summarised in Table 7.4, the reasons have been coded into eleven themes, which in turn have been categorised into general classifications reflecting the underlying concerns in relation to accountability. The most common reason for requiring accountability is a perceived need for local authorities to

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<sup>26</sup>

In addition to the stakeholders identified based on prior studies and the accountability relationship of the local authorities, other recipients and users of annual reports who are also the stakeholders were identified from the survey. There were the public respondents who indicated their other capacities in which they receive the annual reports – *'firm using public service'*, *'other government department'*, *'politician'* and *'researcher'*, and an employee respondent who indicated receiving the annual reports in his capacity as an *'internal auditor'*.

demonstrate how they have spent the funds provided by tax and rate payers (28 percent). This is consistent with the control function of accountability as suggested in Aucoin and Heintzman (2000) and discussed in Chapter Four.

**Table 7.4: Reasons for Local Authorities to be Held Accountable for Performance**

	All		Internal Stakeholders		External Stakeholders	
	Freq.	%	Freq.	%	Freq.	%
Customer:						
<i>Raise level of customer satisfaction.</i>	83	12	20	8	63	15
<i>To increase customer confidence and trust.</i>	67	10	16	6	51	12
<i>To ensure quality services are provided.</i>	57	9	24	10	33	8
<i>To improve the quality of services provided.</i>	10	2	3	1	7	2
	217	33%	63	25%	154	37%
Tax/ratepayer:						
<i>Responsibility for tax/ratepayer monies.</i>	187	28%	75	30%	112	27%
Public:						
<i>To improve public image and support.</i>	104	16	34	14	70	16
<i>To demonstrate public benefit.</i>	16	2	9	3	7	2
	120	18%	43	17%	77	18%
Organisational:						
<i>To improve managerial performance.</i>	98	15	41	17	57	14
<i>To improve financial control.</i>	22	3	20	8	2	0
	120	18%	61	25%	59	14%
Government:						
<i>In return for delegated powers/responsibilities.</i>	5	1	2	1	3	1
<i>Obligation as a government agency.</i>	2	0	2	1	0	0
	7	1%	4	2%	3	1%
No reason stated.	15	2%	3	1%	12	3%
<b>Total</b>	<b>666</b>	<b>100%</b>	<b>249</b>	<b>100%</b>	<b>417</b>	<b>100%</b>

Accountability, as a means of improving the public image of local authorities (16 percent) is identified as the second most subscribed to view and is closely followed by the view that accountability leads to an improvement in the way in which local authorities, organisationally, are managed (15 percent). The stakeholders are also of the view that local authorities should be held accountable to help improve the level of customer satisfaction and customer confidence and trust. All these views indicate accountability as stimuli that promote improvements in service performance and the overall management and performance of the organisation which is consistent with

Aucoin and Heintzman (2000) who suggest the purpose of accountability as continuous improvement. The least commonly held view is that the accountability of a local authority is warranted on the basis of its statutory relationship to its governing body (the state government).

However, when a comparison is made between the internal and external stakeholder groups, a difference in viewpoint emerges. Sixteen percent of external stakeholders are of the view that accountability provides a means of improving public image. A similar number are of the view that holding local authorities accountable may ultimately raise the level of customer satisfaction (15 percent), and increase customer confidence and trust (12 percent). Arguably, the two views are linked. If customers are seen to be satisfied with the quality and quantity of local authority services, then the wider public are equally supportive of the local authority and its endeavours. Interestingly, accountability as a means of increasing customer satisfaction, confidence and trust is not as strongly identified by internal stakeholders. For internal stakeholders, 17 percent of respondents subscribed to the view that accountability leads to an improvement in managerial performance while a further 14 percent suggest that accountability is a means of improving the public image of local authorities. It could be argued that these two views are also linked whereby, for example, if local authorities are seen to go about their business in a managerially responsible manner, then the wider public will remain supportive. Appendix E shows the views of the six groups of stakeholders that formed the internal and external groups. The results suggest differences in viewpoints among the six stakeholder groups.

### **7.3.2 Who are Local Authorities Accountable to for Their Performance?**

In respect of the question '*Who are local authorities accountable to for their performance?*', differences in perceived accountability relationships or direction of accountability were found. Table 7.5 shows that nearly 90 percent of the total stakeholders agreed that a local authority should be accountable for its performance to the public whether the public are considered as being a source of funds (tax/rate payers) or as recipient/consumer of local authority provided services. This finding is consistent with the reasons cited as to why a local authority should be accountable and which predominately centred on customers, tax/rate payers, and the public (see Table 7.4).

**Table 7.5: Distribution of Perceptions of who are Local Authorities Accountable to for Their Performance**

'Accountability to whom'	Stakeholders					
	External		Internal		All	
	Freq.	%	Freq.	%	Freq.	%
Public as tax payers	386	93	205	82	591	89
Public as service consumers	381	91	196	79	577	87
State government	287	69	183	73	470	71
Federal government	202	48	151	61	353	53
Councillors	119	29	118	47	237	36
Employees	112	27	120	48	232	35
Creditors (suppliers/lenders)	43	10	87	35	130	20
Auditors	37	9	74	30	111	17
	417	100%	249	100%	666	100%
	=====	=====	=====	=====	=====	=====

The prominence of the public in the array of accountability relationships and their increasing calls for local authorities to be called to account has been observed in prior studies. For example, Abdul Khalid (2006, p.301), observes that the Malaysian public “are more aware of their rights” and as such are demanding greater accountability for performance from local authorities. In this regard, over 90 percent of the external respondents agreed that a local authority should be accountable for its performance to the public whether the public be considered as a source of funds (tax/ratepayers) or as recipient/consumer of local authority provided services. Although internal respondents most frequently identified an accountability relationship between local authorities and the public (approximately 80 percent of internal respondents) the identification of this relationship was not as strong as for external respondents.

A majority of stakeholders (71 percent) are of the opinion that state government, and to a lesser extent the federal government (53 percent), are also parties that a local authority should be accountable to for its performance. It is notable that while external and internal stakeholders held similar strong views on an accountability relationship between a local authority and state government, the external stakeholders are less certain about an accountability relationship with the federal government (less than 50 percent of external respondents). While the recognition of a strong line of accountability between local authorities and state government is consistent with the traditional

hierarchical relationship between state government and local authorities<sup>27</sup>, as observed from Table 7.4, this is the least cited reason for the accountability of local authorities. Other accountability relationships were also identified whereby, and arising in the context of NPM, 'accountability to whom' has been widened to include accountability to a broader group of stakeholders with different values and interests (Mulgan, 2004; Parker & Guthrie, 1993). As shown in Table 7.5, the stakeholders also identified councillors, creditors, employees and auditors as the parties that a local authority be held accountable to for its performance.

Appendix F presents the views of each of the six groups of stakeholders on the accountability relationship of local authorities indicating a wide direction of accountability.

### **7.3.3 Understanding the Term 'Accountability'**

Stakeholders were asked to identify, from a list, the phrase or phrases that explained their understanding of the term 'accountability':

- a. Accountable for expenditure made in accordance with rules and regulations;*
- b. Accountable for the use of financial resources;*
- c. Accountable for the provision of efficient and effective services;*
- d. Accountable for the management of entrusted public monies and organisational accomplishments.*

These four phrases are related to the scope of accountability that addresses the question of 'accountability for what?' They are based on Kearns (1996), Munro (1996) and Mulgan (2000), who support the view that accountability is not only concerned with reporting on one's actions and activities, but also extends to being responsive to the expectations of an array of individuals and institutions. Table 7.6 summarises the stakeholders' identification of phrases that canvassed the scope of accountability (refer also Appendix G (i)).

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<sup>27</sup> The Malaysian Federal Constitution stipulates that local authorities are subject to the jurisdiction of their respective state government and, therefore, the state government has direct control over local authorities.



**Table 7.6: Patterns on the Perceptions of the Scope of Accountability**

	Stakeholders					
	External		Internal		All	
	Freq.	% n = 384	Freq.	% n = 227	Freq.	% n = 611 <sup>28</sup>
Indicated (a) only	15	4	15	6	30	5
Indicated (b) only	72	19	13	6	85	14
Indicated (c) only	49	13	36	16	85	14
Indicated (d) only	13	3	0	0	13	2
<b>TOTAL</b>	<b>149</b>	<b>39%</b>	<b>64</b>	<b>28%</b>	<b>213</b>	<b>35%</b>
Indicated (a) only	15	4	15	6	30	5
Indicated (a) and (b), or (b); but not (c) or (d)	88	23	15	7	103	17
Indicated (a) and/or (b) and (c), or (c); but not (d)	98	25	64	28	162	26
Indicated (a) and/or (b) and/or (c), and (d), or (d)	183	48	133	59	316	52
<b>TOTAL</b>	<b>384</b>	<b>100%</b>	<b>227</b>	<b>100%</b>	<b>611</b>	<b>100%</b>

A small minority of stakeholders (5 percent) suggested that the scope of accountability should be limited to issues of probity and legality (phrase (a): rules and regulations) which emphasises the compliance reporting of fiduciary accountability (Kluvers, 2003). Phrase (b) indicates a concern for compliance and process (Stewart, 1984) with an emphasis on input control; that is, the control of expenditure in terms of appropriations and ensuring the money was spent wisely (Broadbent & Guthrie, 1992). Seventeen percent of the survey respondents considered that to be held accountable required rendering an account of the use of financial resources including being accountable for expenditure made in accordance with rules and regulations (phrases (a) and (b)). Notably, a greater proportion of external stakeholders (23 percent) subscribed to this view compared to internal stakeholders (7 percent), suggesting that, for a majority of internal stakeholders, accountability is more than just compliance with rules and regulations and reporting on the use of financial resources; accountability is of a higher order. Both phrases (a) and (b) reflect the traditional notion of accountability.

<sup>28</sup>

Although 666 returned questionnaires were considered 'usable' (refer Table 7.1), fifty-five respondents did not indicate a response to either of the phrases.

The results also suggest that the scope of accountability extends beyond the financial focus, where it encompasses elements promoted by NPM, to also represent “the efficient use of resources and the effectiveness of policy decisions” (Kluvers, 2003, p.58). This has been referred to as programme and performance accountability by Stewart (1984). As the results indicate, 26 percent of stakeholders had a concern for the performance of the organisation in the efficient and effective delivery of outputs and, notably, a further 52 percent identified an expectation that the scope of accountability should encapsulate a broader concern over organisational performance and the use of entrusted funds. More internal stakeholders (59 percent) compared to external stakeholders (48 percent) suggested that local authorities should be held accountable for all aspects of their business. Arguably, this indicates a greater awareness by internal stakeholders of contemporary expectations in the role and management of local authorities.

The understanding of the term ‘accountability’ was also analysed in terms of the direction of accountability. Two phrases in relation to the direction of accountability were presented in the questionnaire – *‘rendering an account to the higher authority’* and *‘rendering an account to all stakeholders’*. As can be seen from Table 7.7, an overwhelming majority of stakeholders identified *‘rendering an account to all stakeholders’* and only 8 percent identified *‘rendering an account to the higher authority only’*. In this regard, both internal and external groups of stakeholders have a similar view where the majority (90 percent and above) of each group of respondents identified that accountability should be extended to a broad group of stakeholders. The results are consistent with the results reported in Table 7.5, where the respondents indicated various groups of stakeholders as the parties that local authorities should be accountable to for their performance.

This finding, which is consistent among all stakeholder groups (see Appendix G (ii)), indicates a broad view of the directional nature of the accountability relationship between local authorities and their stakeholders.

**Table 7.7: Distribution of Perceptions of the Direction of Accountability**

	Stakeholders					
	External		Internal		All	
	Freq.	%	Freq.	%	Freq.	%
Rendering an account to the higher authority only	33	10	7	5	40	8
Rendering an account to all stakeholders	304	90	137	95	441	92
<b>TOTAL</b>	<b>337</b>	<b>100%</b>	<b>144</b>	<b>100%</b>	<b>481<sup>29</sup></b>	<b>100%</b>

The next section reports the expectations of Malaysian local authorities' stakeholders on information necessary for assessing and monitoring the performance of local authorities.

**7.4 INFORMATION EXPECTED AND CONSIDERED NECESSARY FOR ASSESSING AND MONITORING THE PERFORMANCE OF LOCAL AUTHORITIES AND THE IMPORTANCE OF INFORMATION FOR DISCLOSURE**

In relation to **Research Question 2**: 'What type of information do the stakeholders expect and consider necessary for assessing and monitoring the performance of local authorities?' and **Research Question 3**: 'How important is it for each informational item to be disclosed in annual reports of local authorities to the stakeholders?', the stakeholders were asked to indicate the items that would assist them in assessing and monitoring the performance of Malaysian local authorities using a list of seventy-one information items listed in the questionnaire. The items were identified based on the findings of prior studies, recommendations by professional bodies, statutory requirements issued for other public sector entities applied by local authorities as guidelines and opinions from practitioners and researchers (see Chapter Six for the details on the selection of the items and the list of items). The form of response also captured the perceptions of stakeholders of the importance of each information item for disclosure. For this purpose, a five-point scale was used ('0' if it was not important for the item to appear in the annual report through to '4' if it was extremely important that it appear). The stakeholders were also asked to add any further information items they thought worth considering and to rate them for importance of disclosure.

<sup>29</sup>

185 respondents provided no response to either of these two phrases.

The responses from the stakeholders indicated that all items listed in the questionnaire were expected and considered necessary in the assessment and monitoring of the performance of local authorities. Tables 7.8 to 7.11 show the perceptions of the importance of information items within each category for disclosure in the annual reports of local authorities.

As shown in Table 7.8, the item '*efforts in generating more revenue*' (part of the '*overview and operational*' category) was perceived by all stakeholders as 'very important' (mean score 3.02).

**Table 7.8: Mean Scores and Significant Differences in Perceptions between Internal and External Stakeholders of Items within '*Overview and Operational*' Category**

	Mean Scores (Level of importance is shown in parentheses)			Significant Difference (Int. vs. Ext.)	
	All n=666	Internal n=249	External n=417	z-score	p-value
<b>Overview and Operational:</b>					
Statement of objectives	2.36 (Q)	2.89 (Q)	2.04 (Q)	-8.949	0.000**
Mayor's/president's report	2.31 (Q)	2.74 (Q)	2.06 (Q)	-7.500	0.000**
Review of operations	2.34 (Q)	2.72 (Q)	2.11 (Q)	-6.471	0.000**
Organisation structure	1.96 (M)	2.63 (Q)	1.56 (M)	-9.838	0.000**
Internal control	2.56 (Q)	2.94 (Q)	2.33 (Q)	-5.918	0.000**
Environmental management	2.58 (Q)	2.94 (Q)	2.36 (Q)	-5.271	0.000**
Personnel	2.40 (Q)	2.90 (Q)	2.10 (Q)	-8.582	0.000**
Occupational health & safety	2.11 (Q)	2.84 (Q)	1.68 (M)	-10.590	0.000**
Working environment	2.06 (Q)	2.78 (Q)	1.62 (M)	-10.648	0.000**
Training programmes for staff	2.12 (Q)	2.82 (Q)	1.70 (M)	-10.137	0.000**
Summary facts and figures	2.17 (Q)	2.76 (Q)	1.81 (M)	-8.469	0.000**
Acknowledgement/award received from the state and federal government	2.27 (Q)	2.74 (Q)	1.99 (M)	-6.745	0.000**
Problems in undertaking services/activities	2.84 (Q)	2.99 (Q)	2.74 (Q)	-1.048	0.295
Reasons for current status of performance achievement	2.91 (Q)	2.93 (Q)	2.90 (Q)	-1.444	0.149
Efforts in generating more revenue	3.02 (V)	3.04 (V)	3.00 (V)	-1.357	0.175
<b>Category</b>	<b>2.40 (Q)</b>	<b>2.84 (Q)</b>	<b>2.13 (Q)</b>	<b>-10.18</b>	<b>0.000**</b>

Note: 0=unimportant; 1=minor importance (M); 2=quite important (Q); 3=very important (V); 4=extremely important.

In this research, a statistically significant difference is seen to exist at  $p < 0.05$ . \*\* significant at  $p < 0.001$  (Asymp. Sig. 2-tailed)

Both internal and external stakeholder groups appear to have the same views on the importance of this item. The mean scores of 3.04 for the internal group and 3.00 for the external group show a very small difference in their perceptions. Both groups also had the same views on the importance of the items '*problems in undertaking*

*services/activities*' and *'reasons for current status of performance achievement'* for disclosure. As shown in the significance test's results, there are no significant differences in the perceptions of the importance of these items for disclosure between the internal and external groups. These results indicate the importance to all stakeholders of the stability and adequacy of financial resources of local authorities for the authorities to function. Furthermore, the stakeholders probably thought that any problems that may restrain the efforts of local authorities to provide their services should be clearly made known to all stakeholders.

However, internal stakeholders perceived information on *'occupational health and safety'*, *'working environment'*, and *'training programmes for staff'* significantly more important than external stakeholders did (statistically significant at  $p < 0.001$ ). Arguably, these items have more of a direct impact on the internal stakeholders and less consequence for external stakeholders as the items are related to the stakeholders' welfare and career development. In addition to these items, *'organisation structure'*, *'summary facts and figures'* and *'acknowledgement/award received from the state and federal government'* were also perceived to be significantly more important by the internal group than the external group (statistically significant at  $p < 0.001$ ). This is probably because the internal group recognised the importance of the information that highlights the overall management and performance of local authorities in order to raise confidence and trust from other stakeholders especially the public and customers. Although there are statistically significant differences in the perceptions of disclosure importance between the internal and external stakeholders for other items within this category, in terms of level of importance, these items were perceived as 'quite important' by both groups. On average, items within the *'overview and operational'* category were perceived as 'quite important' (mean score 2.40) by all stakeholders.

Within the *'non-financial performance'* category (see Table 7.9), of the nine items that were regarded as 'very important' by all stakeholders, six are performance measures. This suggests the importance of local authorities reporting on non-financial measures of their service performance, including the measures of the use of resources, processes and the effectiveness of services provided. Arguably, this can be related to the implementation of the Key Performance Indicators system in the public sector organisations as required by the government that makes the stakeholders more aware of the importance of such measures. Other items that were perceived as 'very important' by all stakeholders are *'comparison between actual and target achievement'* and

'comparison between current and previous years' achievement'. Both internal and external groups appear to have the same views on the importance of these items (the significance test shows no significant differences in the perceptions between both groups for all these items).

**Table 7.9: Mean Scores and Significant Differences in Perceptions between Internal and External Stakeholders of Items within 'Non-Financial Performance' Category**

	Mean Scores (Level of importance is shown in parentheses)			Significant Difference (Internal vs. External)	
	All (n=666)	Internal (n=249)	External (n=417)	z-score	p-value
<b>Non-Financial Performance:</b>					
Goals and objectives of services/activities	2.79 (Q)	2.91 (Q)	2.71 (Q)	-1.702	0.089
Non-financial performance targets	2.65 (Q)	2.75 (Q)	2.60 (Q)	-1.090	0.276
Input measures	2.84 (Q)	2.84 (Q)	2.83 (Q)	-0.269	0.788
Output measures	3.01 (V)	3.00 (V)	3.01 (V)	-0.232	0.817
Impact measures	3.10 (V)	3.12 (V)	3.09 (V)	-0.806	0.420
Efficiency measures	3.05 (V)	3.06 (V)	3.05 (V)	-0.078	0.938
Effectiveness measures	3.05 (V)	3.07 (V)	3.04 (V)	-0.634	0.526
Customer satisfaction measures	3.09 (V)	3.04 (V)	3.12 (V)	-0.683	0.494
Productivity measures	3.11 (V)	3.10 (V)	3.12 (V)	-0.017	0.986
Comparison between actual and target achievement	3.03 (V)	3.05 (V)	3.01 (V)	-0.358	0.720
Comparison between current and previous years achievement	3.08 (V)	3.06 (V)	3.09 (V)	-0.061	0.952
Report on the use of government grants	3.00 (V)	2.96 (Q)	3.03 (V)	-0.514	0.607
Performance of contractor responsible for providing contracted services	2.95 (Q)	2.88 (Q)	3.00 (V)	-0.911	0.362
Achievement of specific programmes as ordered by the state/federal government	2.97 (Q)	2.96 (Q)	2.98 (Q)	-0.245	0.806
<b>Category</b>	<b>2.98 (Q)</b>	<b>2.99 (Q)</b>	<b>2.98 (Q)</b>	<b>-0.369</b>	<b>0.712</b>

Note: 0=unimportant; 1=minor importance; 2=quite important (Q); 3=very important (V); 4=extremely important.

In this research, a statistically significant difference is seen to exist at  $p < 0.05$ .

All stakeholders regarded 'report on the use of government grants' as 'very important' and 'performance of contractor responsible in providing contracted services' as 'quite important'. When a comparison is made between internal and external stakeholders, it is apparent that external stakeholders are more concerned with the spending of financial resources where they regarded 'report on the use of government grants' as 'very important' (mean score 3.03) whereas the internal group considered this item to be 'quite important' (mean score 2.96). External stakeholders are also more interested in the 'performance of contractor responsible for providing contracted services' than internal stakeholders. However, statistically, the differences in perceptions of the

importance of these items between the two groups are not significant. This indicates that all stakeholders probably believe that local authorities should be accountable for the government grants entrusted to them and they want local authorities to be accountable for quality services, even though the services are contracted out to other parties. Other items within this category were perceived by all stakeholders as 'quite important' and statistically no significant differences were detected between the internal and external groups. In aggregate, all items within this category were regarded as 'quite important' for disclosure (mean score 2.98).

With regards to financial items, Table 7.10 shows that all items within the '*statement of revenue and expenditure*' sub-category were regarded as 'very important' by all stakeholders, although the mean scores for these items are slightly higher for the external group than the internal group. Statistically, only one item – '*revenue according to activities or services rendered*' – shows a significant difference (at  $p < 0.05$ ) in the perceptions of the disclosure importance between the two groups of stakeholders.

All items within the '*balance sheet*' and '*cash flow statement*' sub-categories were perceived to be 'quite important' by all stakeholders. However, there are significant differences (at  $p < 0.001$ ) in perceptions of disclosure importance between internal and external stakeholders for all items within these two sub-categories. Based on the mean scores, the internal group perceived all these items to be more important than the external group did. This is different from the perceptions of importance for '*statement of revenue and expenditure*' items, where the external group regarded such items as more important than the internal group did. This suggests that external stakeholders are more concerned with operating performance information than information about local authority equity (assets and liabilities) and cash flows. It is possible that external stakeholders use the '*statement of revenue and expenditure*' as an indication of likely increases in taxes/rates or user charges and hence it is of increased importance to them.

**Table 7.10: Mean Scores and Significant Differences in Perceptions between Internal and External Stakeholders of Items within 'Financial' Category**

	Mean Scores (Level of importance is shown in parentheses)			Significant Difference (Int. vs Ext.)	
	All n=666	Internal n=249	External n=417	z-score	p-value
<b>Financial:</b>					
<b>Statement of revenue and expenditure:</b>					
Revenue according to activities or services rendered	3.13 (V)	3.04 (V)	3.18 (V)	2.144	0.032*
Revenue according to source of revenue	3.08 (V)	3.03 (V)	3.11 (V)	-1.161	0.246
Total revenue	3.09 (V)	3.03 (V)	3.13 (V)	-1.674	0.094
Gross expenditure according to service	3.13 (V)	3.10 (V)	3.15 (V)	-1.128	0.259
Net expenditure according to services	3.11 (V)	3.09 (V)	3.13 (V)	-0.399	0.690
Expenditure classified by nature or function	3.15 (V)	3.10 (V)	3.17 (V)	-0.965	0.334
Total expenditure	3.10 (V)	3.04 (V)	3.14 (V)	-1.371	0.170
Total excess/surplus	3.14 (V)	3.06 (V)	3.19 (V)	-1.578	0.115
<b>Sub-category</b>	<b>3.12 (V)</b>	<b>3.02 (V)</b>	<b>3.15 (V)</b>	<b>-1.184</b>	<b>0.237</b>
<b>Balance sheet:</b>					
Operational assets at cost	2.45 (Q)	2.78 (Q)	2.24 (Q)	-5.288	0.000**
Operational assets at market value	2.24 (Q)	2.67 (Q)	1.98 (M)	-6.789	0.000**
Non-operational assets at cost	2.15 (Q)	2.64 (Q)	1.85 (M)	-7.554	0.000**
Non-operational assets at market value	2.14 (Q)	2.70 (Q)	1.80 (M)	-8.599	0.000**
Community assets at cost	2.16 (Q)	2.72 (Q)	1.83 (M)	-8.582	0.000**
Community assets at market value	2.14 (Q)	2.64 (Q)	1.83 (M)	-7.953	0.000**
Infrastructure assets at cost	2.15 (Q)	2.64 (Q)	1.85 (M)	-7.467	0.000**
Infrastructure assets at market value	2.10 (Q)	2.61 (Q)	1.80 (M)	-7.617	0.000**
Total fixed assets	2.23 (Q)	2.72 (Q)	1.93 (M)	-7.464	0.000**
Deferred charges	2.11 (Q)	2.66 (Q)	1.78 (M)	-8.278	0.000**
Long-term investments	2.15 (Q)	2.66 (Q)	1.84 (M)	-7.650	0.000**
Long-term debtors	2.10 (Q)	2.68 (Q)	1.74 (M)	-8.438	0.000**
Current assets	2.21 (Q)	2.70 (Q)	1.91 (M)	-7.357	0.000**
Current liabilities	2.18 (Q)	2.73 (Q)	1.84 (M)	-8.303	0.000**
Long-term borrowings	2.14 (Q)	2.69 (Q)	1.81 (M)	-7.917	0.000**
Deferred liabilities	2.10 (Q)	2.66 (Q)	1.77 (M)	-7.733	0.000**
Deferred credits – government grants	2.11 (Q)	2.63 (Q)	1.79 (M)	-7.544	0.000**
Reserves	2.15 (Q)	2.75 (Q)	1.78 (M)	-8.517	0.000**
<b>Sub-category</b>	<b>2.17 (Q)</b>	<b>2.6 (Q)</b>	<b>1.85 (M)</b>	<b>-8.692</b>	<b>0.000**</b>
<b>Cash flow statement:</b>					
Operating cash flows	2.27 (Q)	2.81 (Q)	1.95 (M)	-7.819	0.000**
Investing cash flows	2.25 (Q)	2.74 (Q)	1.95 (M)	-7.238	0.000**
Financing cash flows	2.32 (Q)	2.80 (Q)	2.02 (Q)	-7.022	0.000**
Year-end cash and cash equivalents	2.32 (Q)	2.81 (Q)	2.02 (Q)	-7.088	0.000**
<b>Sub-category</b>	<b>2.29 (Q)</b>	<b>2.79 (Q)</b>	<b>1.99 (M)</b>	<b>-8.021</b>	<b>0.000**</b>



Table 7.10 Cont..

	Mean Scores (Level of importance is shown in parentheses)			Significant Difference (Int. vs Ext.)	
	All n=666	Internal n=249	External n=417	z-score	p-value
<b>Financial information outside financial statements:</b>					
Auditor's report	2.94 (Q)	3.01 (V)	2.91 (Q)	-2.412	0.016*
Financial review	2.91 (Q)	2.92 (Q)	2.91 (Q)	-1.629	0.103
Accounting policies	2.47 (Q)	2.83 (Q)	2.25 (Q)	-5.573	0.000**
Revenue to number of staff	2.56 (Q)	2.83 (Q)	2.39 (Q)	-4.265	0.000**
Total asset to number of staff	2.64 (Q)	2.84 (Q)	2.52 (Q)	-3.331	0.001**
Revenue to cost of service	2.77 (Q)	2.97 (Q)	2.65 (Q)	-3.243	0.001**
Return on assets	2.84 (Q)	3.01 (V)	2.74 (Q)	-2.877	0.004*
Actual to budget comparison	2.97 (Q)	3.10 (V)	2.89 (Q)	-1.988	0.047*
Information about cost of service/activity	3.04 (V)	3.08 (V)	3.01 (V)	-0.543	0.587
<i>Sub-category</i>	<b>2.79 (Q)</b>	<b>2.95 (Q)</b>	<b>2.70 (Q)</b>	<b>-3.998</b>	<b>0.000**</b>
<b>Category</b>	<b>2.52 (Q)</b>	<b>2.83 (Q)</b>	<b>2.33 (Q)</b>	<b>-7.726</b>	<b>0.000**</b>

Note: 0=unimportant; 1=minor importance (M); 2=quite important (Q); 3=very important (V); 4=extremely important. In this research, a statistically significant difference is seen to exist at  $p < 0.05$ . \* significant at  $p < 0.05$ ; \*\* significant at  $p < 0.001$  (Asymp. Sig. 2-tailed).

Within the '*financial information outside financial statements*' sub-category, all stakeholders regarded '*information about cost of service/activity*' as 'very important' (mean score 3.04). Statistically, there is no significant difference in perceptions between internal and external stakeholder groups of the importance of this item for disclosure. This indicates the importance of information regarding the economic value of performance of services to all stakeholders. This information could also act as a surrogate for efficiency and effectiveness of service provided (Daniels & Daniels, 1991). Both groups also appear to have a similar view on the importance of '*financial review*' for disclosure. However, for information on '*auditor's report*', '*accounting policies*', '*revenue to number of staff*', '*total asset to number of staff*' and '*revenue to cost of service*', there are statistically significant differences in perceptions of disclosure importance (at  $p < 0.05$ ) between the internal group and external group. The internal group perceived these items to be more important than the external group which suggests that the internal stakeholders are more concerned about local authorities' financial efficiency and accountability than the external stakeholders are. On average, all financial items were regarded as 'quite important' for disclosure by all stakeholders (mean score 2.52).

With regards to '*future-related information*' (as shown in Table 7.11), all items were all regarded as 'very important' by all stakeholders with the mean scores for all items

above the three point. Statistically, there are no significant differences in the perceptions of the importance of all these items for disclosure between both groups. This suggests the importance of forward-looking information to both groups of stakeholders in ensuring the sustainability of local authority performance. Along with the information on financial position represented by the balance sheet items, the '*future-related information*' items can indicate the financial viability of local authorities (Daniels & Daniels, 1991).

**Table 7.11: Mean Scores for Disclosure Importance and Significant Differences in Perceptions between Internal and External Stakeholders of Items within '*Future-Related Information*' Category**

	Mean Scores (Level of importance is shown in parentheses)			Significant Difference (Internal vs. External)	
	All (n=666)	Internal (n=249)	External (n=417)	z-score	p-value
<b>Future-Related Information:</b>					
Future plans	3.21 (V)	3.21 (V)	3.20 (V)	-0.894	0.371
Future performance targets	3.24 (V)	3.24 (V)	3.13 (V)	-0.294	0.769
Information pertaining to future capital improvements	3.10 (V)	3.10 (V)	3.13 (V)	-0.639	0.523
<b>Category</b>	<b>3.17 (V)</b>	<b>3.18 (V)</b>	<b>3.15 (V)</b>	<b>-0.453</b>	<b>0.651</b>

Note: 0=unimportant; 1=minor importance; 2=quite important; 3=very important (V); 4=extremely important.

In this research, a statistically significant difference is seen to exist at  $p < 0.05$ .

Overall, as shown in Table 7.8 through to Table 7.11, the Mann-Whitney test for significant differences between the perceptions of internal and external stakeholders of the item-by-item basis shows that forty-two of the total seventy-one items (59 percent) are detected to have significant differences ( $p < 0.05$ ) in the perceptions of the importance for disclosure. Significant differences exist for twelve of the total fifteen items (80 percent) within the '*overview and operational*' category ( $p < 0.001$ ), one item (12.5 percent) within the '*statement of revenue and expenditure*' category ( $p < 0.05$ ), all eighteen items within the '*balance sheet*' category ( $p < 0.001$ ), all four items within the '*cash flow statement*' category ( $p < 0.001$ ) and seven out of nine items (78 percent) within the '*financial information outside financial statements*' category. However, there is no significant difference in the score of disclosure importance attached by both groups of stakeholders to all items within the '*non-financial performance*', '*future-related information*' categories and almost all items within the '*statement of revenue and expenditure*' category.

The results reported in Tables 7.8 to 7.11 are summarised (by category) in Table 7.12. As the table shows, in aggregate, stakeholders rated twenty-two items (31 percent) as 'very important', forty-eight items (68 percent) as 'quite important' and one item (1 percent) of 'minor importance'. The '*future-related information*' category was regarded by all stakeholders as the most important (mean score 3.17). This is followed by '*statement of revenue and expenditure*' with a category mean score of 3.12, and '*non-financial performance*' (mean score 2.98). It is observed that of the three traditional statements for general purpose reporting, items included in the '*statement of revenue and expenditure*' were rated more important (3.12) than those in the '*balance sheet*' and '*cash flow statement*' (mean scores of 2.17 and 2.29 respectively). The results suggest that collectively, stakeholders place more importance on what local authorities have achieved and intend to achieve with entrusted resources (financial and non-financial performance – '*statement of revenue and expenditure*', '*future-related information*' and '*non-financial performance*'), and are less concerned with the stewardship of resources (financial position – '*balance sheet*') and cash flows.

Nine financial and nine non-financial performance information items were rated 'very important' by all stakeholders. The average level of importance given by the stakeholders to the top nine financial items (mean 3.11) is higher than the average level of importance given to the top nine non-financial performance items (mean 3.06). However, based on percentage by category, 64 percent of non-financial performance information (nine of fourteen items) were rated 'very important', compared to 23 percent of financial information (nine out of thirty-nine items). Accordingly, the mean score of the '*non-financial performance*' category (2.98) is higher than that of the combined '*financial*' category (2.52). This, in aggregate suggests a stakeholder concern for not only the financial performance of local authorities but also non-financial performance.

As summarised in Table 7.12, overall, internal stakeholders rated items within all categories as either 'very important' or 'quite important'. None of the items were rated below the 'quite important' level by the internal group. However, 25 items (35 percent) were regarded by the external group as being of 'minor importance'. Accordingly, the overall mean score of the internal group is higher than that of the external group (2.88 and 2.45 respectively).

Table 7.12: Frequency of Items within Level of Disclosure Importance and Category Mean Scores

Category of Information Item (number of items in each category is shown in parentheses)	All Stakeholders				Internal Stakeholders				External Stakeholders				Significant Difference (Internal vs. External)	
	Frequency of Items within Level of Importance			Mean	Frequency of Items within Level of Importance		Mean		Frequency of Items within Level of Importance		Mean		z-score	p-value
	V	Q	M		V	Q			V	Q	M			
Overview and operational (15)	1	13	1	2.40	1	14	0	2.84	1	8	6	2.13	-10.183	0.000**
Non-financial performance (14)	9	5	0	2.98	8	6	0	2.99	10	4	0	2.98	-0.369	0.712
Financial:														
Statement of revenue and expenditure (8)	8	0	0	3.12	8	0	0	3.02	8	0	0	3.15	-1.184	0.237
Balance sheet (18)	0	18	0	2.17	0	18	0	2.68	0	1	17	1.85	-8.692	0.000**
Cash flow statement (4)	0	4	0	2.29	0	4	0	2.79	0	2	2	1.99	-8.021	0.000**
Financial information Outside the financial statements (9)	1	8	0	2.79	4	5	0	2.95	1	8	0	2.70	-3.998	0.000**
All Financial (39)	9	30	0	2.52	12	27	0	2.83	9	11	19	2.33	-7.726	0.000**
Future-related information (3)	3	0	0	3.17	3	0	0	3.18	3	0	0	3.15	-0.453	0.651
<b>Total (71)</b>	<b>22</b>	<b>48</b>	<b>1</b>	<b>2.61</b>	<b>24</b>	<b>47</b>	<b>0</b>	<b>2.88</b>	<b>23</b>	<b>23</b>	<b>25</b>	<b>2.45</b>	<b>-7.440</b>	<b>0.000**</b>

Note: 0=unimportant; 1=minor importance (M); 2=quite important (Q); 3=very important (V); 4=extremely important.

In this research, a statistically significant difference is seen to exist at  $p < 0.05$ . \*\* significant at  $p < 0.001$  (Asymp. Sig. 2-tailed)

Both internal and external stakeholder groups had similar perceptions of the level of importance for disclosure for items within the categories of '*non-financial performance*', '*statement of revenue and expenditure*', and '*future-related information*'. Statistically, there is no significant difference in the perceptions of importance for these categories. Arguably, both groups are more concerned with how efficiently the local authorities have gone about providing their services and have a strong interest in the intentions of local authorities.

However, both groups of stakeholders perceived the importance of items within the '*overview and operational*', '*balance sheet*', '*cash flow statement*' and '*financial information outside the financial statements*' categories quite differently and statistically, the Mann-Whitney test results indicate that there is a significant difference at  $p < 0.001$  for the importance both groups of stakeholders attached to items within each of these four categories. Forty percent (six items) of the total items within the '*overview and operational*' category were rated as being of 'minor importance' by the external group but the internal group did not rate any items within this category lower than the 'quite important' level. The category mean of internal stakeholders (2.84) is higher than that of external stakeholders (2.13). For the '*balance sheet*' category, internal stakeholders rated all items in this category as being 'quite important' while external stakeholders rated more than 90 percent (seventeen items) of the total items as being of 'minor importance'. The internal stakeholder group perceived items within this category as more important (mean score 2.68) than the external group did (mean score 1.85). A similar pattern also applies to items within the '*cash flow statement*' and '*financial information outside financial statements*' categories. It could be speculated that as a 'group' the internal stakeholders are more aware of the importance of a broad range of financial and non-financial information in the assessment and monitoring of local authority performance.

To ascertain if one particular type of stakeholder has a preferential view on the level of importance of an information item, further analysis is undertaken whereby the mean scores of each individual stakeholder type are assessed to determine any statistically significant difference between means<sup>30</sup>. The mean scores for each stakeholder type are provided in Appendix H and summarised, by category, in Table 7.13.

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<sup>30</sup> The researcher acknowledges that the relatively low number of councillor, creditor and state government respondents may limit the ability to compare scores across all stakeholder types. Therefore

**Table 7.13: Category Mean Scores for Individual Stakeholder Type**

Information Item Category	Internal Stakeholders			External Stakeholders		
	M (n = 92)	C (n = 13)	E (n = 144)	P (n = 399)	Cr (n = 12)	SG (n = 6)
Overview and operational	2.84	2.36	2.89	2.12	2.53	2.33
Non-financial performance	3.04	2.12	3.03	2.98	3.14	2.91
Financial: <i>Statement of revenue and expenditure</i>	3.08	2.47	3.10	3.16	3.19	2.88
<i>Balance sheet</i>	2.73	1.96	2.72	1.81	2.75	2.73
<i>Cash flow statement</i>	2.76	2.44	2.84	1.95	2.69	3.21
<i>Financial information outside financial statements</i>	2.96	2.30	3.02	2.70	2.90	2.17
Future-related information	3.17	2.97	3.22	3.17	3.00	2.67
Aggregate stakeholder type mean score	2.90	2.25	2.92	2.44	2.86	2.65

Note: M = Management; C = Councillors; E = Employees; P = Public; Cr = Creditor; SG = State Government

0=unimportant; 1=minor importance; 2=quite important; 3=very important; 4=extremely important.

As shown in Table 7.13, the score for each category varied amongst the stakeholder types. In general, four of the six stakeholder groups (management, employees, the public and creditors) have similar views on the level of importance of each category. Arguably, this group of stakeholder types has a strong interest in the intentions of local authorities (*'future-related information'*) and how efficiently (*'statement of revenue and expenditure'*, *'financial information outside financial statements'*) and effectively (*'non-financial performance'*) the local authorities have gone about accomplishing those intentions. Councillors regard disclosure of all items as of lower importance than the ratings given by other internal stakeholders and indicate that the *'cash flow statement'* is of relatively higher importance (mean score 2.44) than *'non-financial performance'* information (mean score 2.12).

Although it might be expected that creditors would have a strong interest in information relating to solvency, and the highest category mean score of *'statement of revenue and expenditure'* lends some support to this thesis, other categories pertaining to solvency, such as *'balance sheet'* and *'cash flow statement'* are more lowly rated than measures focusing on other aspects of performance. This might suggest that creditor respondents have less concern about the solvency of local authorities and more concern with the role and function of local authorities in society.

the results are limited in the conclusions that are drawn. Similarly, the researcher also acknowledges that the low response rate for councillor and creditor respondents may limit the ability to generalise the findings for each stakeholder type.

For state government respondents, the mean scores indicate a concern for the 'present'. Sufficient cash flow and resources (*'cash flow statement'*) are of utmost importance in the delivery of effective services/activities (*'non-financial performance'*). Compared to other stakeholder types, there is less concern with the way in which local authorities are administered (*'overview and operational'*), their financial efficiency (*'financial information outside financial statements'*) or the intentions of local authorities (*'future-related information'*).

As detailed in Appendix H (the test statistics from the Mann-Whitney test are shown in Appendix I), a significant difference in the perceptions between two or more stakeholder types is identified for a number of items. A common theme emerging is the consistent significant difference between the public respondents' views and the views of management and employees on the level of importance for the majority of the items. It is to be expected that management and employees would routinely be concerned with a number of organisational *'overview and operational'* items as part of their normal working environment and financial measures and indicators (*'balance sheet'*, *'cash flow statement'*, and *'financial information outside financial statements'*) would form part of their internal monitoring and reporting processes. The public have less concern in this regard.

The results from the Mann-Whitney test (see Appendix I) are reported to provide a better insight into the items that have significant differences among pairs of stakeholder groups. However, it must be noted that a low number of respondents were involved within the councillors, creditors and state-government groups and therefore the results are limited in the conclusions that are drawn. The test was carried out for fifteen possible pairs of the six stakeholder groups and for the seventy-one items to provide an overall picture of differences between any two groups. Table 7.14 summarises the results by showing the number of statistically significant differences of each pair of stakeholder groups for the seventy-one items.

**Table 7.14: Perceptions of Disclosure Importance between Stakeholder Group Pairings**

Pair of Stakeholder Groups	Frequency of Items that are Significantly/Not Significantly Different (n=71)		Percentage of Different/Similar Perceptions on Disclosure Importance	
	Significant (p<0.05)	Not Significant	Different %	Similar %
Management/councillors	7	64	9.9	90.1
Management/employees	0	71	0	100.0
Councillors/employees	7	64	9.9	90.1
Public/creditors	18	53	25.3	74.7
Public/state government	13	58	18.3	81.7
Creditors/state government	0	71	0	100.0
Public/management	39	32	54.9	45.1
Public/councillors	2	69	2.8	97.2
Public/employees	41	30	57.8	42.2
Creditors/management	2	69	2.8	97.2
Creditors/councillors	0	71	0	100.0
Creditors/employees	2	69	2.8	97.2
State government/management	5	66	7.0	93.0
State government/councillors	0	71	0	100.0
State government/employees	6	65	8.4	91.6

As the table shows, there is no significant difference for all items between the views of management and employees, creditors and state government, creditors and councillors, and state government and councillors. This indicates that the pairings have a similar view on the disclosure importance of all the seventy-one items. However, the results show a significant difference for a majority of items between the views of the public and management stakeholders (thirty-nine items, 54.9 percent of the total seventy-one items) and between the views of the public and employees (forty-one items, 57.8 percent). As reported in Appendix I, the significant differences in the perceptions of disclosure importance between these pairings are mainly '*financial*' and '*overview and operational*' items. These different views between the public and management; and between the public and employees contributed to the difference between the internal group (management and employees) and the external group (the public). Accordingly, the different views suggest different interests in and expectations for information relevant in assessing and monitoring the performance of local authorities between the service provider (management and employees) and the service recipients (the public).



The results also show that the views among the external stakeholder groups were different on a number of items. In respect of the public and creditors, significant differences in perceptions were found for eighteen items (25.3 percent), the majority of which relate to the '*balance sheet*' (fifteen items). Significant differences were also found for thirteen items (18.3 percent) between the perceptions of the public and state government, in that eight were within the '*overview and operational*' category, three were within the '*cash flow statement*' category and two were within the '*financial information outside financial statements*' category. Given the small number of creditors, state government and councillor groups, the conclusions drawn from the results, and generalisation to the whole population, are limited. However, the insights gained from the comparison between each pair of stakeholder groups are interesting and future research may address this limitation.

## 7.5 DISCUSSION

The results obtained from the questionnaire survey indicate that a standard definition of accountability has not yet emerged and that there is diversity in respect of 'for what' and 'to whom' accountability should be rendered. Overall, accountability was recognised as an essential component of power (defined, implied, and delegated) and a responsibility imposed by the local authorities' ability to collect and use public money. However, it is apparent that the need to give an account and the emphasis that has been placed on performance is recognised by the stakeholders. This shows that the performance of Malaysian local authorities is of increased interest, significance and value to their stakeholders and implies that the local authorities need to reflect a results-oriented environment in order to meet their stakeholders' expectations. The individual reasons for this motivation reflect general areas of commonality with aspects of NPM as encapsulated by the managerial code of accountability, and extended by a public accountability whereby the accountability of local authorities is seen to promote greater organisational focus on the achievement of output/outcome-related goals (Kluvers, 2003).

In relation to the direction of accountability, the results show that for the majority of stakeholders, the call-to-account is no longer underpinned by past tendencies of a bureaucratic, hierarchical approach to public administration and accountability. Instead,

and while the concern for financial accountability remains high (for example, responsibility for tax/ratepayer monies and financial control), stakeholders identify a strong motivation for the accountability of local authorities on the basis of a relationship between the local authorities and their customers/public. In addition, the results also indicated that stakeholders identified other accountability relationships. This is consistent with the context of NPM in that 'accountability to whom' has been widened to include accountability to a broader group of stakeholders with different values and interests (Mulgan, 2004; Parker & Guthrie, 1993).

It is observed from the results that the identified accountability relationships consist of a range of relationships that Stewart (1984) would classify as being in the form of either a 'bond of accountability' or a 'link of accountability', as discussed in Chapter Four's theoretical framework of accountability. Combined with a consideration of the nature and function and the statutory basis available and applicable to Malaysian local authorities (as discussed in Chapter Two), the results suggest that the Stewart's (1984) accountability framework can be extended to the local authority environment. It is suggested that a bond of accountability exists between the local authorities (comprising the president/mayor and councillors) and the state government. Such office-holders are nominated<sup>31</sup> by the state government and arguably are therefore directly accountable to the state government. As provided in the Malaysian Local Government Act 1976 (Act 171, section 9), the state government has direct control over the affairs of local authorities. In this context, accountability becomes part of the power relationship between the state government and the appointed office holder.

It is also suggested that a bond of accountability may exist between the local authorities and creditors as the responsibility of one party to another in respect of resources supplied/consumed is stated in a contractual agreement between the parties. Similarly, and in accordance with the doctrines of NPM, contracts relating to conditions of employment create responsibilities and expectations for both employer and employee which would also give rise to a bond of accountability.

Stakeholders identified an accountability relationship between a local authority and its auditor. Although an auditor does not have power of sanctions over the conduct of the

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<sup>31</sup> Malaysia has a nominative representation system that operates at the local authority level. That is, the mayor/president and council members are not elected officials but are appointed by the respective state governments.

organisations being audited, arguably this identified relationship may reflect a stakeholder view of the 'responsiveness' of local authorities to any concerns raised by the auditor. If so, then tentatively a link of accountability may be seen to exist.

Although there is little opportunity for the public (both as tax/ratepayer and consumer) to hold key office holders to account by way of, for example, direct sanctions (for example, via election), there are a number of provisions that allow the public to gain access to information regarding the performance of local authorities and to provide feedback. For example, section 23 of Act 171 requires that meetings of local authorities be open to the public and representatives of local media; section 27 provides for the minutes of the proceedings of the local authority to be available for inspection by any tax/rate payer; and section 60(4) requires that audited financial accounts be published in the government gazette. In addition, section 142 of Act 171 provides that "citizens who are dissatisfied with the authorities' performance have a right to make objections in writing and are allowed an opportunity of being heard at the consequent enquiry". There are a number of avenues currently available to the public to submit their objections. They can make a direct submission to the local authority concerned, to the Public Complaint Bureau of the Prime Minister Department, or they can make public objections/complaints via the media. The bureau may then review the case and if necessary bring its findings to the attention of the relevant state government to take further action. Within this regime, the broader public have no opportunity to hold local authorities to account; rather, any sanctions are imposed through a higher authority such as the state government.

In the absence of the capacity for power, the accountability relationship between local authorities and the broader public is therefore suggested to be only in the form of a link of accountability, which recognises an informal "recognition of responsiveness" by local authorities (Stewart, 1984, p.25). However, as the results show, the stakeholders clearly perceive that local authorities should be held accountable because they have a responsibility to provide services which are funded by tax/ratepayers and a responsibility to provide information on how that money has been spent. Therefore the relationship with tax/ratepayers, although something less than a bond of accountability, is somewhat more than just a link, because of its connection to responsibility requirements.

Overall, as an accountability relationship between the local authorities and the broad group of stakeholders exists, it is suggested that regardless of whether there are bonds or links of accountability, local authorities are obliged to present an account of, and to answer for their performance to all the stakeholders. The involvement of the broad stakeholder groups in the accountability relationship and the wide scope of accountability would require different types of information to be reported in the annual reports (Patton, 1992). The diversity of information items expected and considered necessary for assessing and monitoring the performance of local authorities are evidenced from the results.

Generally therefore, the results are consistent with the findings from the studies of Hay and Antonio (1990), Jones et al. (1985) and Wallace (1988b) who identified diversity amongst stakeholder or user groups as to the information they require. Further, the wide scope of information that was thought necessary and important by the stakeholders for disclosure in the annual reports of local authorities is consistent with the public accountability paradigm which requires the reporting of comprehensive information about the condition, performance, activities and progress of the entity (Coy & Dixon, 2004).

In particular, the results suggest that stakeholders showed strong interest not only in the information pertaining to financial performance and position of local authorities but more importantly information not traditionally disclosed in the financial statements, for example non-financial performance and future-related information. This is consistent with other studies that found that although financial statements are useful (Gray, 1984), performance information located outside financial statements attracts more attention (Clark, 2003). Specifically, the results support the literature as to the high importance of budget compared to actual information (Boyne et al., 2002; Mack & Ryan, 2004), outcome and output measures (Clark, 2003) and operating results and efficiency and effectiveness indicators (Hay & Antonio, 1990; Jones et al., 1985). Stakeholders as a whole rated information about '*future plans*' and '*future performance targets*' as being of the most importance. Information related to the future is necessarily speculative and opinions differ on the relevance of disclosing this information. It is contended that information about probable future development that is based on well-founded expectations is a significant component of an accountability regime (Farneti & Bestebreur, 2004).

In relation to information in financial statements, the results indicate that stakeholders had a strong preference for information items commonly found within the statement of revenue and expenditure. This is consistent with the findings from Tayib et al. (1999) that this statement is of particular importance at the local level in Malaysia. The high 'level of importance' rating allocated by the stakeholders for the disclosure of financial performance measures, such as revenue according to source and revenue according to activities/services rendered, and expenditure according to function and to services provided, emphasises a stakeholder concern over the adequacy of funding to sustain the level of expenditure required to deliver sufficient and quality services.

Overall, in terms of the importance of information to be disclosed in the annual reports of local authorities, the results indicate inconsistency amongst the stakeholder groups. The stakeholders differ significantly in their perception of the disclosure importance of forty-two of the seventy-one items (59 percent) – all eighteen items of the '*balance sheet*' and four items of the '*cash flow statement*'; seven out of nine items of '*financial information outside financial statements*'; twelve out of fifteen items of '*overview and operational*'; and one out of eight items of '*statement of revenue and expenditure*'. The diversity of the stakeholders' information and disclosure requirements would lead to difficulties in prioritising and reconciling the multiple requirements (Edwards & Hulme, 1995; Likierman, 1992). However, if the information and disclosure expectations of the broad stakeholder groups are to be met, either a broad information set relating to the reporting of performance should be provided or a consensus formed amongst key 'expert' stakeholders for a minimum level of disclosure. In this research, 'expert' stakeholders' opinions and agreement on the information necessary for assessing and monitoring the performance of local authorities and the importance of such item for disclosure were considered through an expert opinion-seeking Delphi exercise that was carried out following the survey of the broad group of stakeholders.

## 7.6 CHAPTER SUMMARY

This chapter has reported the results obtained from a questionnaire survey. The results provided insights into the perceptions of Malaysian local authorities' stakeholders of the accountability of the local authorities and the stakeholders' informational and disclosure expectations.

The results reported in this chapter have answered the first three research questions as outlined in the introductory section. In respect of the first research question, it is found that generally, the stakeholders of Malaysian local authorities consider that accountability involves rendering an account to all stakeholders in respect of financial and managerial accountability. In respect of the second research question, the stakeholders indicate an expectation for a broad set of information for assessing and monitoring the performance of local authorities. The broad set covers all the information identified based on the findings of previous studies, professional recommendations, statutory provisions and practitioners' and experts' opinions and as listed in the questionnaire. The stakeholders' expectations included not only financial information but also non-financial information. Finally, in respect of the third research question, differences in the level of importance of categories and specific information items were identified. The differences were found to be significant for the majority of the items.

While the results obtained from the questionnaire survey indicate that the local authorities should provide a wide scope of information to a broad group of stakeholders, there is a diversity of opinion on information and disclosure expectations. The diversity in the expectations was reconciled through the Delphi exercise that involved a panel of expert stakeholders. All items in the original questionnaire index and the importance of each item for disclosure as identified by the broad stakeholder groups were incorporated into the process of reaching the expert consensus. The results obtained from the exercise are reported in the following chapter.

## CHAPTER EIGHT

### RESULTS AND DISCUSSION: EXPERTS AGREEMENT ON THE DISCLOSURE OF PERFORMANCE INFORMATION AND FINALISATION OF DISCLOSURE INDEX

#### 8.1 INTRODUCTION

The previous chapter reported the results obtained from a questionnaire survey that involved a broad group of stakeholders of Malaysian local authorities. Following the questionnaire survey, a Delphi exercise was conducted. The purpose of the Delphi exercise is to reconcile the information and disclosure requirements of the broad group of stakeholders identified in the questionnaire survey as reported in Chapter Seven and finalise the information items necessary for assessing and monitoring the performance of local authorities and the importance of those items for disclosure in the annual reports of local authorities. This is addressed by research questions four and five:

##### *Research Question 4*

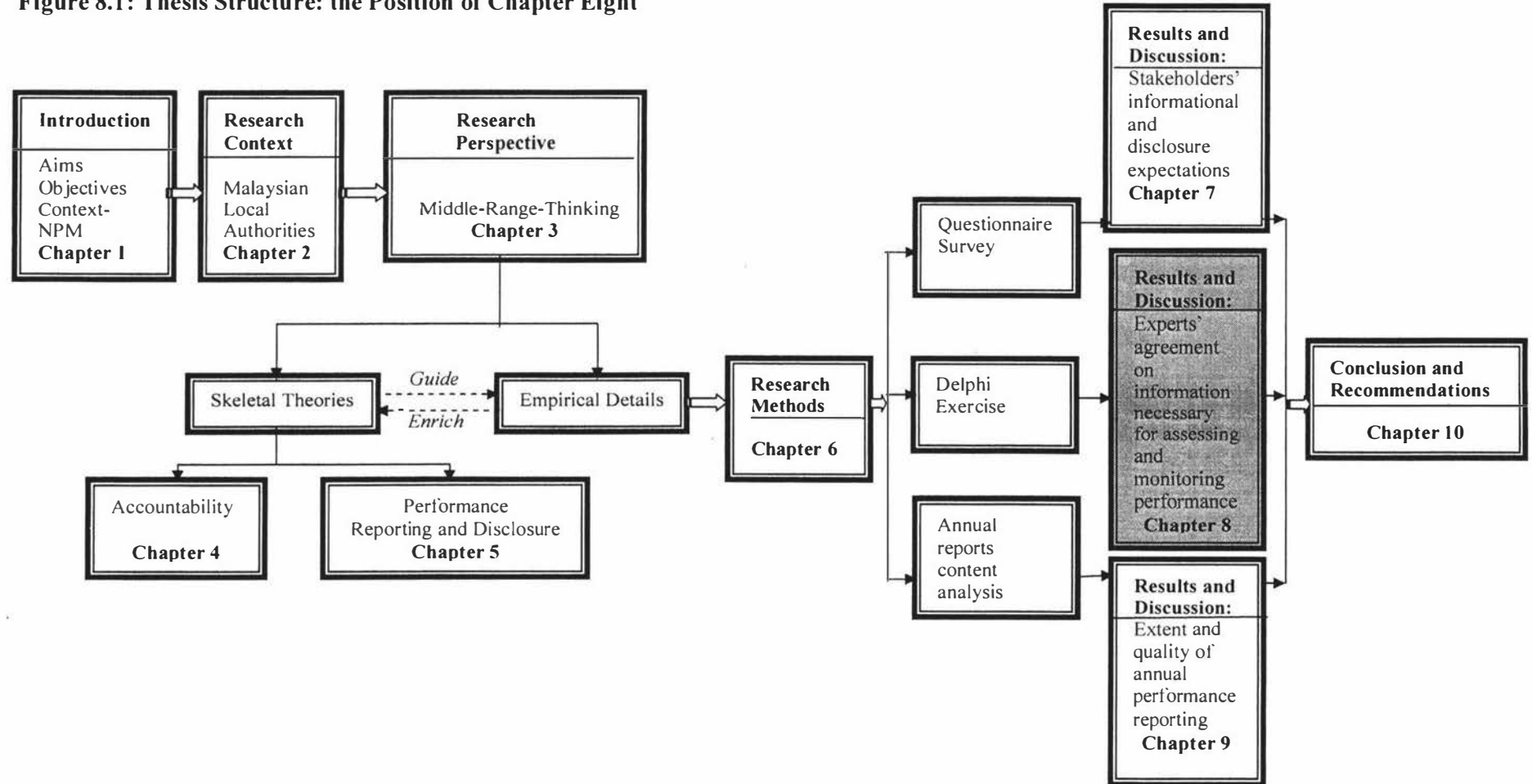
What type of information items do expert stakeholders agree is necessary for assessing and monitoring the performance of local authorities and what is the importance of such items for disclosure?

##### *Research Question 5*

How can the information and importance for disclosure, as agreed by the experts, be organised into a disclosure index for assessing the extent and quality of information disclosure?

Following the introductory section, Section 8.2 presents a review of the Delphi exercise. The results of the Delphi exercise which are related to research question four are reported and discussed in Section 8.3. Section 8.4 provides the answer to research question five which describes the finalisation of the disclosure index. Section 8.5 summarises the chapter. Figure 8.1 shows the position of this chapter in relation to the thesis.

**Figure 8.1: Thesis Structure: the Position of Chapter Eight**





## 8.2 A REVIEW OF THE DELPHI EXERCISE

### 8.2.1 The Delphi Panel

The Delphi panel involved members with a vast knowledge of Malaysian local authorities and the issues being researched. Based on their current and past positions and experiences, they are considered ‘experts’ who possess a high degree of objectivity and rationality and are able to apply their knowledge in an expert way. An expert in this Delphi exercise is defined as “an individual panellist who possesses more knowledge about the subject than most people” (Hill & Fowles, 1975, p.187). They can also be considered as representing the Malaysian local authority stakeholders including those identified in Chapter Four – the general public, state government, federal government, auditors, creditors, management, employees, councillors and the interest group (a community association)<sup>32</sup>. The panel consisted of twelve members who were selected purposively based on their knowledge and experience related to the research problem areas. The details of the panel are shown in Table 8.1.

**Table 8.1: Details of Delphi Panel**

Role	Description	Number of Panel Members
Auditor	Auditor/top official of the National Audit Department (auditor general department)	1
Creditor	Supplier for a number of local authorities	1
Federal government representative	Top official of the local government department of the Ministry of Housing and Local Government	1
Management	Secretary (vice-president) of a local authority, and Finance director cum head of treasury department of a local authority	2
Councillor	Councillor of a local authority cum politician of the governing party	1
State government representative	Chief internal auditor of a state secretariat office (ex-accountant of a local authority), and Top management of the local government section of a state secretariat office	2
Employee/financial report preparer	Accountant of a local authority	1
Public and interest group	Leaders of two community associations (one of them also a councillor)	2
Public and politician	Politician of an opposition party (ex-management of a local authority)	1
<b>Total</b>		<b>12</b>

<sup>32</sup>

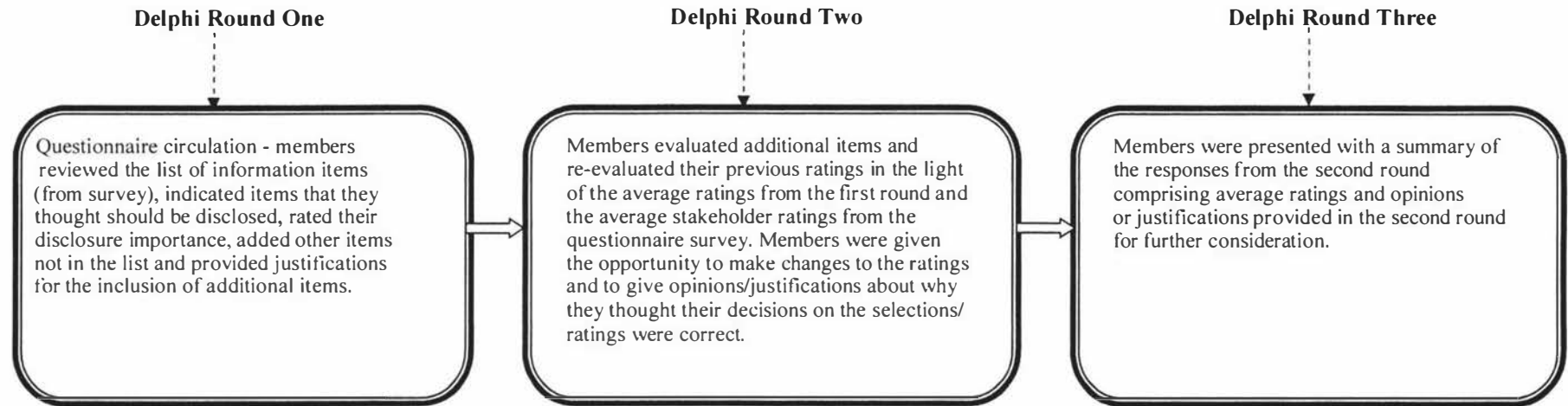
In the questionnaire survey (at phase one, data collection), the stakeholders involved were the groups of the public, state government, creditors, councillors, management and other employees. In the Delphi exercise, the panel members represented the stakeholder groups of the oversight body (auditor), government (the federal and state governments), the public (including interest group and politician), management, councillors, and employees (see Table 8.1).

The majority of the panel members (67 percent) have at least a bachelor's degree. The members are aged between thirty-five and fifty-seven years old and have been in their current positions and involved in local authority matters for between five and twenty years. Based on their position and experience, they are regarded in the current research as experts in areas related to the research problem.

### **8.2.2 Activities Involved in the Delphi Exercise**

The Delphi exercise involved three rounds and the activities involved in each round (as extracted from Figure 6.3, Chapter Six) are shown in Figure 8.2. The results obtained through the three rounds of the Delphi exercise provide the answer for research question four relating to the information items necessary for assessing and monitoring the performance of local authorities and the importance of these items for disclosure.

**Figure 8.2: Activities Involved in Each Delphi Round**



### 8.3 INFORMATION ITEMS NECESSARY FOR ASSESSING AND MONITORING THE PERFORMANCE OF LOCAL AUTHORITIES AND THE IMPORTANCE OF THE INFORMATION FOR DISCLOSURE AS AGREED BY THE EXPERTS

The information items necessary for assessing and monitoring the performance of local authorities and the importance of those items for disclosure as perceived and agreed by the expert panel were established in the Delphi exercise. The following sub-sections report the results obtained from each Delphi round.

#### 8.3.1 Results from Delphi Round One

At this initial round, the panel members were presented with a questionnaire featuring the items shown in Table 8.2.

**Table 8.2: Potential Disclosure Items**

<b>A. Overview and Operational</b>	
A1	Statement of objectives
A2	Mayor's/president's report
A3	Review of operations
A4	Organisation structure
A5	Internal control (including internal audit and risk management)
A6	Environmental management
A7	Personnel
A8	Occupational health & safety
A9	Working environment
A10	Training programmes for staff
A11	Summary facts and figures
A12	Acknowledgement/award received from state and federal government
A13	Problems in undertaking services/activities
A14	Reasons for current status of performance achievement
A15	Efforts in generating more revenue
<b>B. Non-Financial Performance</b>	
B1	Goals and objectives of services/activities
B2	Non-financial performance targets
	<i>Performance measurement:</i>
B3	Input measures
B4	Output measures
B5	Impact measures
B6	Efficiency measures
B7	Effectiveness measures
B8	Client/customer satisfaction measures
B9	Productivity measures
B10	Comparison between actual and target achievement
B11	Comparison between current and previous years achievement
B12	Report on the use of government grants

Table 8.2: Cont..

<b>B. Non-Financial Performance</b>	
B13	Report on performance of contractors responsible for providing contracted services
B14	Achievement of specific programmes as ordered by state/federal government
<b>C. Financial</b>	
	<b>Statement of Revenue and Expenditure:</b>
C1	Revenue according to activities or services rendered
C2	Revenue according to source of revenue
C3	Total revenue
C4	Gross expenditure according to service
C5	Net expenditure according to service
C6	Expenditure classified by nature or function
C7	Total expenditure
C8	Total excess/surplus
	<b>Balance Sheet:</b>
C9	Operational assets at cost
C10	Operational assets at market value
C11	Non-operational assets at cost
C12	Non-operational assets at market value
C13	Community assets at cost
C14	Community assets at market value
C15	Infrastructure assets at cost
C16	Infrastructure assets at market value
C17	Total fixed assets
C18	Deferred charges
C19	Long-term investments
C20	Long-term debtors
C21	Current assets
C22	Current liabilities
C23	Long-term borrowings
C24	Deferred liabilities
C25	Deferred credits – government grants
C26	Reserves
	<b>Cash Flow Statement:</b>
C27	Operating cash flows
C28	Investing cash flows
C29	Financing cash flows
C30	Year end cash and cash equivalents
	<b>Financial Information Outside Financial Statements</b>
C31	Auditor's report
C32	Financial review
C33	Accounting policies
C34	Revenue to number of staff
C35	Total asset to number of staff
C36	Revenue to cost of service/activity
C37	Return on assets
C38	Actual to budget comparison
C39	Information about cost of service/activity
<b>D. Future-Related Information</b>	
D1	Future plans
D2	Future performance targets
D3	Information pertaining to future capital improvements

The items in Table 8.2 are the same items that were identified from the questionnaire survey undertaken at the first stage of the research process that involved a broad group of stakeholders. The panel members were asked to indicate which items they thought necessary for assessing and monitoring the performance of a local authority and to indicate the importance they attached to each item for disclosure in annual reports using a five-point scale (0 = unimportant and should not be disclosed to 4 = extremely important and must be disclosed). They could also add any further items they thought should be disclosed in annual reports of Malaysian local authorities. The full results from the questionnaire survey in this round are summarised in Appendix J.

In this round, nine additional items (with their rating of disclosure importance) were proposed by some of the panel members. The additional items are reported in Table 8.3.

**Table 8.3: Additional Items (Round One)**

	Additional Items
A11	Auditor general department's rating of financial management
A12	Role and responsibility of councillors
A13	Public complaints that have been resolved
A14	Activity/programme that involved community participation
A15	Area of administration
A16	Scope of authority of contractor
A17	Scope of authority of LA and other relevant agencies
A18	Contracted-out service/activity
A19	Assessment tax rates

A panel member suggested that item A11 be included because an index for the rating of financial management has been prepared by the auditor general's department (known as the National Audit Department in Malaysia). According to the panel member the index will soon be used to assess the financial management of local authorities and the rating may indicate the accountability of local authorities for the proper use of financial resources. For item A12, it was suggested that this item should be included as some people do not really know the responsibilities of a councillor. The disclosure of item A13 was suggested because the information is important to provide feedback on resolution of public complaints. It was also suggested that item A14 should be disclosed because it is consistent with Local Agenda 21<sup>33</sup> which emphasises public participation.

<sup>33</sup> Local Agenda 21 (L.A21) was introduced in the Earth Summit conference in Rio de Janeiro in 1992. It is "a local-government-led, community-wide, and participatory effort to establish a comprehensive action strategy for environmental protection, economic prosperity and community well-

A panellist suggested the disclosure of item AI5 because he believed that this information is useful in assessing the capability of local authorities in providing quality services. The '*scope of authority of contractor*' (item AI6) should be disclosed in local authority annual reports because according to the panellist who suggested this item "the information (on item AI6) can provide a clearer understanding of the relationship between a local authority and its contractors". The explanation given for additional item AI7 was that "the public does sometimes confuse which party should be responsible in providing the facilities needed". The maintenance of public roads was given as an example and the justification given to this example was: "the maintenance of some roads is under the responsibility of the Public Works Department, a department of the federal government, and for some other roads, the maintenance is under the responsibility of local authorities". The relevant panel member stated that the reason for suggesting item AI8 was to ensure that the public knows which services have been contracted out, so that they can give feedback about the performance of the contractor. The member who suggested item AI9 explained that stakeholders should be informed about the assessment tax rates and the different rates between types of premises, so that they could have a clear idea about the income of local authorities from the assessment taxes. These explanations were written down and presented to each member in Delphi round two, along with the summary of the first round results as shown in Appendix J. As the objective of the Delphi exercise is to reach greater consensus or stability in the responses, the subsequent rounds were used to allow members to reconsider their initial responses and (if any) to give justifications to their responses.

### **8.3.2 Results from Delphi Round Two**

In the second round, each member was invited to reconsider his/her initial responses based upon the responses of his/her peers. The measure of central tendency (the mean response) and the measure of dispersion (the standard deviation) were presented to the members in the second round to help them reconsider their position. The means of disclosure importance, as perceived by the broad stakeholder groups in the questionnaire survey were also presented to the members and they were asked to take them into consideration in making their decisions. Members who did not suggest any particular

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being in the local jurisdiction or area" (the Urban Environmental Management Research Initiative, [www.gdrc.org/ucm/la21/la21.html](http://www.gdrc.org/ucm/la21/la21.html)). The implementation of LA21 in Malaysia commenced January 2000 and it emphasises community participation in the local authority decision making process (Mohamed Osman, Syed A. Rashid & Ahmad, 2008).

additional items identified in the first round were asked to indicate the disclosure importance of the items suggested by others. For this purpose, the written summarised explanations to the additional items were also presented. In addition, the members were encouraged to give justification (if any) for their position. The responses of all panel members in round two are summarised in Appendix K. One additional item was proposed by a member in this round – item A110: *'improvement programme of service delivery system'*. It was explained by the member that the item has been the current focus of the federal and state governments to improve services at all government departments and agencies including local authorities.

Based on the results of round one, if any of the responses were considered two points or more from the mean response or had the highest or lowest rating for importance, the particular member was encouraged to justify his/her response. The justifications were written down and at the end of the meeting with each member the written justifications were read back to the members to ensure that they were satisfied with the transcription. The summarised justifications of responses of certain items are shown in Table 8.4.

**Table 8.4: A Summary of Justifications for Particular Items**

Item	Member No.	Justification
A8, A9, A10	1	Employees are an important asset to local authorities (LA) and their welfare should always be taken care of. The disclosure of these items shows that the LAs are concerned about their employees. <i>(note: the panel member also included item A10 for this justification).</i>
A8, A10	4	(The items) are internal matters and not the concern of people outside the LA.
A13, A14	4	Item A13 shows a negative standpoint and for A14 the word 'reason' has been referred to 'reason for not performing'– also showing a negative standpoint. The member suggested that the word 'problems' for A13 be changed to 'challenges' and the wording for A14 be changed to <i>'factors that influenced the current status of performance achievement'</i> . With the new wording, the member changed his responses for items A13 and A14.
B12	1	The response of '0' was given because according to the member, information about the use of government grants is available in the financial statements.
	6	The item is important and should be made clear to all stakeholders.
	10	LAs should always be accountable for the use of the grants as they use public monies.
	11	Most members of the public wanted to know the details about the use of resources received from government and not all understand how to read financial statements.



**Table 8.4 Cont..**

Item	Member No.	Justification
B13	4	This is an internal matter between the LA and the contractor. What needs to be reported is the action that had been taken by the LA against the contractor that did not perform. The member however changed his previous response from '0' to '1'.
C11 to C19	4	The most important item that must be disclosed is the total asset (C19) but the break down of the asset depends on the nature of the asset. To the member, infrastructure has always been the focus of LA and therefore C17 and C18 should be highlighted but C11 to C16 are less important for highlighting in the annual report.
C34 to C37	1	It is important for these items to be disclosed in order to show how efficient the LA is.
	5	It is important to know whether the LA is under or over staffed, which may indicate the effectiveness and efficiency of the LA and its staff.
C34 to C36	4	These items are for internal assessment and should be reported internally.
A110	10	The additional item, <i>'improvement programme of service delivery system'</i> was proposed with a justification that this item has been the current focus by the government to improve public services.

### 8.3.3 Results from Delphi Round Three

The justifications and suggestions provided by the particular members in round two were made known to all other members in round three. All members were again invited to reconsider their previous responses. Responses from all members in this round are shown in Appendix L.

The changes in wording for item A13 (as suggested by member no. 4 in the second round, as shown in Table 8.4), that is, from *'problems in undertaking services/activities'* to *'challenges in undertaking services/activities'* and item A14 (from *'reasons for current status of performance achievement'* to *'factors that influenced the current status of performance achievement'*) were agreed by all other members. With those changes to the wording, three panel members changed their previous responses (from '1' to '2' or from '2' to '3', see Appendices K and L). In respect of item B12, a panel member reconsidered his previous response and changed the rating from '0' to '3'. Based on the justifications given by some panel members (members no. 6, 10 and 11, as shown in Table 8.4), he understood the necessity of detailed explanations and justifications of the item in non-financial terms. In respect of items C11 to C16 and C34 to C36, a panel member still wanted to maintain his previous responses and justifications for the items,

although he understood the justifications given by the other members on the inclusion of those items. The majority of the panel members did not agree with the additional item AI6. Most of them stated that a contractor does not have any power in a local authority.

The process of Delphi stops when an acceptable or stable level of consensus or agreement is reached (Tersine & Riggs, 1976). In the current research, the Delphi exercise stopped in round three. The number of rounds to reach greater consensus is variable and it is often two rounds (Rowe & Wright, 1999) or three rounds (Tersine & Riggs, 1976). For example, in Coy and Dixon's (2004) study, sufficient consensus was reached after two rounds. In the next section the level of consensus for the current research is described.

#### **8.3.4 Level of Consensus of the Responses**

Mean ratings and standard deviations are the most widely used methods to determine the Delphi panel members' level of consensus (Tersine & Riggs, 1976). After three rounds, it was considered that the greatest possible consensus had been reached between all panel members, as the standard deviation (for almost all items) in round three was lower than the previous rounds, which indicates greater uniformity of opinion (Coy & Dixon, 2004). Appendix M shows the mean and standard deviation of each individual item of each Delphi round.

As the results in Appendix M show, the standard deviation (SD) for almost all items (96 percent of the seventy-one original listed items, and 70 percent of the ten additional items) in the final round was either unchanged or lower than that of the previous round; and the average SD for all items for all members decreased from the first to the third round.

In order to specifically evaluate the stabilisation of the responses and the level of consensus on each item, non-parametric tests of differences (Friedman one-way ANOVA and Wilcoxon signed ranks tests<sup>34</sup>) were performed. The Friedman test was performed to examine changes to disclosure importance scores across the Delphi

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<sup>34</sup>

The Friedman and Wilcoxon tests were chosen as the data of the responses of each panel member is an ordinal data, the normality assumption for a parametric test is not satisfied and the sample size is small (Salvatore & Reagle, 2001).

rounds. Comparisons in both procedures are based on mean rank of the variable – the disclosure importance score. Specifically, the Friedman test examines whether the mean ranks of disclosure importance scores of each item across the three Delphi rounds differ significantly from each other. The Wilcoxon signed ranks test for paired samples was performed to compare responses to disclosure importance of each item between responses of Delphi rounds one and two, and two and three for the original items, and between rounds two and three for the additional items. This test was performed to further describe the results of the Friedman test. Table 8.5 reports the Chi-Square and significance test ( $p < 0.05$ ) of the Friedman test and the Z-Scores of the Wilcoxon test of each relevant item.

**Table 8.5: Level of Consensus of Responses**

Item of Information		Significance Test of Difference (*p < 0.05; Asymp. Sig. 2-tailed)		
		Friedman One-Way ANOVA <sup>1</sup>	Wilcoxon Signed Ranks for Paired Samples <sup>2</sup>	
			Round 1 to Round 3	Round 2 vs Round 1      Round 3 vs Round 2
<b>Original Items:</b>				
A 1	Statement of objectives	ND	ND	ND
A 2	Mayor's/president's report	2.000 (0.368)	-1.000 (0.317)	ND
A 3	Review of operations	ND	ND	ND
A 4	Organisation structure	2.000 (0.368)	-1.000 (0.317)	ND
A 5	Internal control	2.000 (0.368)	-1.000 (0.317)	ND
A 6	Environmental management	4.000 (0.135)	-1.417 (0.157)	ND
A 7	Personnel	2.000 (0.368)	-1.000 (0.317)	ND
A 8	Occupational health & safety	3.000 (0.223)	-1.000 (0.317)	-1.000 (0.317)
A 9	Working environment	ND	ND	ND
A 10	Training programmes for staff	4.000 (0.135)	-1.414 (0.157)	ND
A 11	Summary facts and figures	2.000 (0.368)	-1.000 (0.317)	ND
A 12	Acknowledgement/award received from state and federal government	ND	ND	ND
A 13	Challenges in undertaking services/activities	7.600 (0.022)*	-1.342 (0.180)	-1.732 (0.083)
A 14	Factors contribute to the current status of performance achievement	4.667 (0.097)	-1.000 (0.317)	-1.414 (0.157)
A 15	Efforts in generating more revenue	ND	ND	ND
B 1	Goals and objectives of services/activities	2.000 (0.368)	-1.000 (0.317)	ND
B 2	Non-financial performance targets	2.000 (0.368)	-1.000 (0.317)	ND
B 3	Input measures	ND	ND	ND
B 4	Output measures	ND	ND	ND
B 5	Impact measures	ND	ND	ND
B 6	Efficiency measures	2.000 (0.368)	-1.000 (0.317)	ND
B 7	Effectiveness measures	2.000 (0.368)	-1.000 (0.317)	ND
B 8	Satisfaction measures	ND	ND	ND
B 9	Productivity measures	2.000 (0.368)	-1.000 (0.317)	ND
B 10	Comparison between actual and target achievement	ND	ND	ND
B 11	Comparison between current and previous years' achievements	ND	ND	ND
B 12	Report on the use of government grants	2.000 (0.368)	ND	-1.000 (0.317)
B 13	Performance of contractor responsible for providing contracted services	2.000 (0.368)	-1.000 (0.317)	ND
B 14	Achievement of specific programmes as ordered by state/federal government	ND	ND	ND
C 1	Auditor's report	ND	ND	ND
C 2	Financial review	ND	ND	ND

Table 8.5 Cont..

Item of Information		Significance Test of Difference (*p < 0.05. Asymp. Sig. 2-tailed)		
		Friedman One-Way ANOVA <sup>1</sup>	Wilcoxon Signed Ranks for Paired Samples <sup>2</sup>	
			Round 2 vs Round 1	Round 3 vs Round 2
	<b>Original Items:</b>			
C3	Revenue according to activities or services rendered	ND	ND	ND
C4	Revenue according to source of revenue	2.000 (0.368)	-1.000 (0.317)	ND
C5	Total revenue	ND	ND	ND
C6	Gross expenditure according to service	ND	ND	ND
C7	Net expenditure according to service	2.000 (0.368)	ND	ND
C8	Expenditure classified by nature or function	ND	-1.000 (0.317)	ND
C9	Total expenditure	ND	ND	ND
C10	Total excess/surplus	ND	ND	ND
C11	Operational assets at cost	ND	-1.000 (0.317)	ND
C12	Operational assets at market value	2.000 (0.368)	-1.000 (0.317)	ND
C13	Non-operational assets at cost	2.000 (0.368)	-1.342 (0.180)	ND
C14	Non-operational assets at market value	4.000 (0.135)	ND	ND
C15	Community assets at cost	ND	ND	ND
C16	Community assets at market value	ND	ND	ND
C17	Infrastructure assets at cost	ND	ND	ND
C18	Infrastructure assets at market value	ND	ND	ND
C19	Total fixed assets	2.000 (0.368)	-1.000 (0.317)	ND
C20	Deferred charges	ND	ND	ND
C21	Long-term investments	2.000 (0.368)	-1.000 (0.317)	ND
C22	Long-term debtors	2.000 (0.368)	-1.000 (0.317)	ND
C23	Current assets	ND	ND	ND
C24	Current liabilities	ND	ND	ND
C25	Long-term borrowings	ND	ND	ND
C26	Deferred liabilities	ND	ND	ND
C27	Deferred credits – government grants	4.000 (0.135)	ND	ND
C28	Reserves	2.000 (0.368)	-1.342 (0.180)	ND
C29	Operating cash flows	2.000 (0.368)	-1.000 (0.317)	ND
C30	Investing cash flows	2.000 (0.368)	-1.000 (0.317)	ND
C31	Financing cash flows	ND	ND	ND
C32	Year end cash and cash equivalents	ND	ND	ND
C33	Accounting policies	ND	ND	ND
C34	Revenue to number of staff	ND	ND	ND
C35	Total Asset to number of staff	ND	ND	ND
C36	Revenue to cost of service	ND	ND	ND
C37	Return on assets	ND	ND	ND
C38	Actual to budget comparison	ND	ND	ND
C39	Information about cost of service/activity	ND	ND	ND
D1	Future plans	ND	ND	ND
D2	Future performance targets	ND	ND	ND
D3	Information pertaining to future capital improvements	ND	ND	ND

Table 8.5 Cont..

		Wilcoxon Signed Ranks for Paired Samples <sup>2</sup>		
				Round 3 vs Round 2
	<b>Additional Items:</b>			
AI1	Auditor general department's rating of financial management			ND
AI2	Role and responsibility of councillor			ND
AI3	Public complaints that have been resolved			-1.414 (0.157)
AI4	Activity/programme that involved community participation			-1.000 (0.317)
AI5	Area of administration			ND
AI6	Scope of authority of contractor			ND
AI7	Scope of authority of LA and other relevant agencies			ND
AI8	Contracted-out service/activity			ND
AI9	Assessment tax rates			-1.000 (0.317)
AI10	Improvement programme of service delivery system			-

Note: ND denotes 'no difference'.

<sup>1</sup>Chi-square values (p-values are shown in parentheses), <sup>2</sup>Z-scores (p-values are shown in parentheses).

Due to insufficient cases for processing data (for item AI10), the Wilcoxon test of differences could not be performed.

As shown in Table 8.5, the results of the Friedman test indicate that there were either no differences or no significant differences in mean ranks of disclosure importance for almost all items across the three Delphi rounds for the original items. The results are clarified by the results of the Wilcoxon test. Only the Friedman results on item AI3 shows a significant difference (at  $p < 0.05$ ) in mean ranks of the disclosure importance. The significant difference was mainly due to the difference between round three and round two (as shown by the Wilcoxon results).

In addition to the tests on the seventy-one original items, the Wilcoxon tests were also performed on additional items identified during the Delphi exercise. The results show that there are either no significant differences or no differences in mean rank scores for all additional items.

Overall, the results reported in Table 8.5 imply that there is stability in responses across the Delphi rounds involved and the consensus on the disclosure importance of each item can be considered reached after round three. The acceptable level of consensus on all

items in the final round represents the experts' agreement on the expectations of Malaysian local authorities' stakeholders on the information necessary for assessing and monitoring the performance of local authorities and the information disclosure importance. The mean scores of the experts in the final round were taken as the disclosure importance weightings for the disclosure index. The mean was taken instead of the median because it gave equal weight to each of the responses (Buzby, 1974).

### **8.3.5 Information and Disclosure Importance Agreed by the Expert Panel**

The agreement or consensus reached by the experts on the information necessary for assessing and monitoring the performance of local authorities and the information disclosure importance weightings (represented by the mean scores of disclosure importance in round three) were analysed. In all, there were eighty-one items identified in the Delphi exercise – seventy-one items were the original items (identified by the broad group of stakeholders through the questionnaire survey carried out at the stage one of the research process) and ten were the additional items identified through the Delphi exercise (see Appendix M). However, item *'scope of authority of contractor'* was taken out as the majority of the panel members (75%) perceived that the item had little need for disclosure. Only three members agreed on this item and the mean importance score of the item is only 0.50 (See Appendix L). The additional items were integrated into appropriate categories. It was decided that six additional items (*'role and responsibility of councillor'*, *'area of administration'*, *'scope of authority of local authorities and other relevant agencies'*, *'auditor general department's rating of financial management'*, *'public complaints that have been resolved'* and *'activity/programme that involved community participation'*) were appropriately classified under the *'overview and operational'* category. It was thought appropriate that two additional items – *'contracted-out service/activity'* and *'improvement programme of service delivery system'* – be classified as *'non-financial performance'* information items and that the item *'assessment tax rates'* be included under the *'financial - financial information outside financial statements'* category.

As summarised in Table 8.6, of the total eighty items, fifty-seven items (71 percent) were identified as being 'very important' to be disclosed in the annual reports of local authorities, and twenty-three items (29 percent) were identified as being 'quite

important' to be disclosed. None of the eighty items were identified as being 'extremely important', of 'minor importance', or 'unimportant'.

**Table 8.6: Frequency of Items within Level of Disclosure Importance and Mean Score by Category**

Category of Information Item and Number of Items in Each Category	Frequency of Items within Level of Importance					Mean Score
	E <sup>1</sup>	V	Q	M	U	
Overview and operational (21 <sup>2</sup> )	0	14	7	0	0	2.83
Non-financial performance (16 <sup>2</sup> )	0	12	4	0	0	3.04
Financial:						
Statement of revenue and expenditure (8)	0	8	0	0	0	3.15
Balance sheet (18)	0	12	6	0	0	3.11
Cash flow statement (4)	0	4	0	0	0	3.38
Financial information outside the financial statements (10 <sup>2</sup> )	0	5	5	0	0	3.10
All financial (40)	0	29	11	0	0	3.14
Future-related information (3)	0	2	1	0	0	3.25
<b>Total (80)</b>	<b>0</b>	<b>57</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>3.10</b>

Note: <sup>1</sup>Based on the 5-point scale used – 4 = extremely important (E); 3 = very important (V); 2 = quite important (Q); 1 = minor importance (M); 0 = unimportant (U).

<sup>2</sup>Including additional items (6 items – 'operational and overview'; 2 items – 'non-financial performance' and 1 item – 'financial information outside financial statements').

As Table 8.6 shows, all of the 'statement of revenue and expenditure' and 'cash flow statement' items were identified as being 'very important'. Other category items were rated as 'very important' or 'quite important'. On average, the 'cash flow statement' was rated as the most important category (mean score of 3.38) followed by the 'future-related information' category (mean score of 3.25). The experts agreed that other financial categories – 'statement of revenue and expenditure', 'balance sheet statement', and 'financial information outside financial statements' are more important than other non-financial categories – 'overview and operational' and 'non-financial performance'. The fifty-seven items that were identified as being 'very important' were rearranged from the highest to the lowest importance mean and they are presented in Table 8.7.



**Table 8.7: Top Scored Items ('Very Important')**

Item	Category	Mean (Max 4)
Auditor's report	Financial outside FS	3.83
Actual to budget comparison	Financial outside FS	3.67
Total fixed assets	Balance sheet	3.58
Future plans	Future-related	3.58
Current assets	Balance sheet	3.50
Accounting policies	Financial outside FS	3.5
Statement of objectives	Overview	3.42
Operating cash flows	Cash flow statement	3.42
Investing cash flows	Cash flow statement	3.42
Financing cash flows	Cash flow statement	3.42
Mayor's/president's report	Overview	3.33
Review of operations	Overview	3.33
Efforts in generating more revenue	Overview	3.33
Comparison between current and previous years achievement	Non-financial	3.33
Financial review	Financial outside FS	3.33
Long-term investments	Balance sheet	3.33
Current liabilities	Balance sheet	3.33
Future performance targets	Future-related	3.33
Internal control	Overview	3.25
Comparison between actual and target achievement	Non-financial	3.25
Revenue according to activities or services rendered	St. of rev. and exp.	3.25
Revenue according to source of revenue	St. of rev. and exp.	3.25
Total revenue	St. of rev. and exp.	3.25
Total expenditure	St. of rev. and exp.	3.25
Long-term debtors	Balance sheet	3.25
Long-term borrowings	Balance sheet	3.25
Deferred liabilities	Balance sheet	3.25
Reserves	Balance sheet	3.25
Year end cash and cash equivalents	Cash flow statement	3.25
Information about cost of service/activity	Financial outside FS	3.25
Performance of contractors responsible for providing contracted services	Non-financial	3.17
Gross expenditure according to service	St. of rev. and exp.	3.17
Public complaints that have been resolved	Overview <sup>1</sup>	3.17
Organisation structure	Overview	3.08
Summary facts and figures	Overview	3.08
Factors contribute to the current status of performance achievement	Overview	3.08
Goals and objectives of services/activities	Non-financial	3.08
Non-financial performance targets	Non-financial	3.08
Effectiveness measures	Non-financial	3.08
Achievement of specific programmes as ordered by state/federal government	Non-financial	3.08
Net expenditure according to services	St. of rev. and exp.	3.08
Operational assets at cost	Balance sheet	3.08

Table 8.7 Cont..

Item	Category	Mean (Max 4)
Operational assets at market value	Balance sheet	3.08
Assessment tax rates	Financial outside FS <sup>1</sup>	3.08
Environmental management	Overview	3.00
Output measures	Non-financial	3.00
Impact measures	Non-financial	3.00
Customer satisfaction measures	Non-financial	3.00
Productivity measures	Non-financial	3.00
Report on the use of government grants	Non-financial	3.00
Expenditure classified by nature or function	St. of rev. and exp.	3.00
Total excess/surplus	St. of rev. and exp.	3.00
Infrastructure assets at cost	Balance sheet	3.00
Infrastructure assets at market value	Balance sheet	3.00
Area of administration	Overview <sup>1</sup>	3.00
Contracted-out service/activity	Non-financial <sup>1</sup>	3.00
Improvement programme of service delivery system	Non-financial <sup>1</sup>	3.00

Note: <sup>1</sup>Categorised earlier as additional items.

The items identified as being 'very important' comprise a broad range of information. Notably, the experts perceived that *'auditor's reports'* was the most important information that should be disclosed, followed by the information about *'actual to budget comparison'*. Six other *'financial'* items were also in the top ten, along with one *'future-related information'* item and one *'overview and operational'* item. The six *'financial'* items in the top ten include two *'balance sheet'* items, three *'cash flow statement'* items and one *'financial outside financial statements'* item. Items of *'statement of revenue and expenditure'* were only rated nineteenth equal. The highest score for *'non-financial performance'* information was *'comparison between current and previous years achievement'* – being eleventh equal from the top.

Overall, the results are consistent with prior studies (for example, Nicholls & Ahmed, 1995; Abu-Nassar & Rutherford, 1996; Mirshekary & Saudargaran, 2005) which found that the auditor's report and financial statements categories were rated by the users as the most important items. The results are also consistent with the findings of Lee (2008) who found that financial information was regarded as highly important. The experts were probably more concerned with financial information, especially items reported in financial statements and the auditor's report, because in the Malaysian public sector, the audits carried out by the auditor general are also mainly focused on financial management. Performance audits are still new and very selective in terms of the programmes or projects being audited (Buang, 2008). Another possible reason is that the

positions and experience of most of these experts, within the areas of management, finance, accounting and auditing, involve financial decision-making, and that is why they are more concerned with financial management and the reliability of financial statements. Financial statements have been found to be the most used source of information for financial decision making by 'specialist' users (Yap, 1997). Although there was slightly higher concern for financial information items as evidenced by the higher mean scores of these items, the experts also agreed on the importance of disclosing non-financial information in annual reports. This concern is consistent with a growing phenomenon internationally that highlights the usefulness of publicly disclosed performance information that includes non-financial information (Brady, 2008). The experts' agreement on the importance of information items for disclosure indicates that financial statements constitute a central part of the annual report and confirms the importance of including financial information outside financial statements and also including non-financial information.

The results imply that the experts' concern is to make local authorities and their activities more transparent by providing sufficient information, both financial and non-financial in nature, that enables a broader group of stakeholders to fairly assess and monitor the performance of local authorities. This was evidenced when the experts agreed on all the information items that were initially evaluated by the broad group of stakeholders and when more information that was thought necessary to be disclosed by the local authorities in their annual reports was added during the Delphi exercise.

A comparison between the experts' agreement/consensus on the information disclosure importance and the perceptions of the broad stakeholder groups of the same issue shows differences in mean scores. Based on the original seventy-one items<sup>35</sup>, the comparison by category of information items as reported in Table 8.8 shows that the expert panel perceived fifty-two of the seventy-one items (73%) as 'very important' and nineteen items (27%) as 'quite important'. On the other hand, only twenty-two items (31%) were regarded as 'very important' by the broad group of stakeholders, forty-eight items (68%) as 'quite important' and one item (1%) as of 'minor importance'. In terms of level of importance by category, the perceptions of the experts and the broad group of stakeholders on the '*statement of revenue and expenditure*' and '*future-related*

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<sup>35</sup> Since the ten additional items were only identified during the Delphi exercise, the comparison could only be carried out on the seventy-one original items.

*information*' categories were the same ('very important'). For the other categories, the experts perceived that the items within those categories were 'very important' but the broad group of stakeholders only considered them as being 'quite important'.

**Table 8.8: Comparison between the Experts' Agreement on and the Perceptions of the Broad Group of Stakeholders of the Disclosure Importance**

Category	Expert Panel			Broad Stakeholder Group			
	V	Q	Means	V	Q	M	Means
Overview and operational (15)	9	6	3.05	1	13	1	2.40
Non-financial performance (14)	12	2	3.04	9	15	0	2.98
Financial:							
<i>Statement of revenue and expenditure (8)</i>	8	0	3.15	8	0	0	3.12
<i>Balance sheet (18)</i>	12	6	3.11	0	18	0	2.17
<i>Cash flow statement (4)</i>	4	0	3.38	0	4	0	2.29
<i>Financial information outside the financial statements (9)</i>	5	4	3.10	1	8	0	2.79
Future-related information (3)	2	1	3.25	3	0	0	3.17
<b>All items (71)</b>	<b>52</b>	<b>19</b>	<b>3.11</b>	<b>22</b>	<b>48</b>	<b>1</b>	<b>2.61</b>

Note: Level of importance: 0 = un-important; 1= minor importance (M); 2= quite important (Q); 3=very important (V); 4=extremely important. None of the responses indicated 'un-important' and 'extremely important'.

Overall, the mean scores of the experts for disclosure importance of each category and in aggregate are higher than those of the broad group of stakeholders. In the current research the experts' agreement on information and the importance of the information for disclosure is used in the disclosure index. As mentioned earlier in this chapter, the purpose of the Delphi exercise is to reconcile the expectations of the broad stakeholder group on the information necessary for assessing and monitoring the performance of local authorities and their perceptions of importance of the information for disclosure. The information was finalised when the Delphi panel members added any other items they thought important and indicated the importance weighting for those items.

The broad stakeholder group, as reported in the previous chapter, consists of many stakeholder groups with different value structures and preferences. The large amount of individual variance in expectation makes it difficult to determine the required disclosures (Renn, 2006) and therefore, the expectations and perceptions of the broad group of stakeholders need to be reconciled. This is done in the current research through the Delphi exercise, which involved a panel of experts. Within the framework of public accountability, the meeting of stakeholders' needs is an objective and therefore in the

current research, the expectations of stakeholders were incorporated into the process of the experts reaching consensus. All information items that were perceived relevant in assessing and monitoring the performance of local authorities and the importance of each item for disclosure were presented to the expert panel during the Delphi exercise for consideration. In the next section, the finalisation of the disclosure index based on the experts' agreement is discussed.

#### 8.4 FINALISATION OF THE DISCLOSURE INDEX

The experts' agreement on the information that should be disclosed and the information disclosure importance (represented by the disclosure importance mean scores agreed by the experts in the Delphi final round) was developed into an index. The quality criteria for particular items were then determined.

Eighty items were arranged into four major categories – '*Overview and Operational*', '*Non-Financial Performance*', '*Financial*', and '*Future-Related Information*'. The eighty items include nine additional items identified during the Delphi exercise. As discussed in Section 8.3.5, six additional items were appropriately classified as '*Overview and Operational*', two were classified as '*Non-Financial Performance*' and one was classified as '*Financial Information outside Financial Statements*'. In respect of the item '*auditor general department's rating of financial management*', although the rating system was not implemented in the years related to this research – 2003 to 2005 (the rating system has only been introduced to local authorities in 2008), the item was included in the index for the benefit of future use of the index. However, this item was allocated 'n/a' to all the samples as it was not applicable in the years relating to this research.

Table 8.9 shows the eighty information items established in the Delphi exercise with their importance weightings.

**Table 8.9: List of Information Items and their Importance Weightings**

	<b>Importance Weightings (0-4)</b>
<b>Overview and Operational</b>	
Statement of objectives	3.42
Mayor's/president's report	3.33
Organisation structure	3.08
Role and responsibility of councillors	2.83
Area of administration	3.00
Scope of authority of LA and other relevant agencies	2.92
Internal control	3.25
Environmental management	3.00
Personnel	2.67
Occupational health & safety	2.83
Working environment	2.92
Training programmes for staff	2.75
Review of operations	3.33
Summary facts and figures	3.08
Challenges in undertaking services/activities	2.92
Factors that influenced the current status of performance achievement	3.08
Auditor general department's rating of financial management	2.92
Public complaints that have been resolved	3.17
Acknowledgement/award received from state and federal government	2.83
Efforts in generating more revenue	3.33
Activity/programme that involved community participation	2.83
<b>Non-Financial Performance</b>	
Goals and objectives of services/activities	3.08
Non-financial performance targets	3.08
Input measures	2.58
Output measures	3.00
Impact measures	3.00
Efficiency measures	2.92
Effectiveness measures	3.08
Customer satisfaction measures	3.00
Productivity measures	3.00
Comparison between actual and target achievement	3.25
Comparison between current and previous year's achievement	3.33
Report on the use of government grants	3.00
Performance of contractors responsible for providing contracted services	3.17
Achievement of specific programmes as ordered by state/federal government	3.08
Contracted-out service/activity	3.00
Improvement programme of service delivery system	3.00
<b>Financial</b>	
<i>Statement of revenue and expenditure:</i>	
Revenue according to activities or services rendered	3.25
Revenue according to source of revenue	3.25
Total revenue	3.25
Gross expenditure according to service	3.17
Net expenditure according to service	3.08
Expenditure classified by nature or function	3.00
Total expenditure	3.25
Total excess/surplus	3.00

Table 8.9 Cont..

	Importance Weightings (0-4)
<b><i>Balance sheet:</i></b>	
Operational assets at cost	3.08
Operational assets at market value	3.08
Non-operational assets at cost	2.83
Non-operational assets at market value	2.83
Community assets at cost	2.83
Community assets at market value	2.92
Infrastructure assets at cost	3.00
Infrastructure assets at market value	3.00
Total fixed assets	3.58
Deferred charges	2.75
Long-term investments	3.33
Long-term debtors	3.25
Current assets	3.50
Current liabilities	3.33
Long-term borrowings	3.25
Deferred liabilities	3.25
Deferred credits – government grants	2.83
Reserves	3.25
<b><i>Cash flows statement:</i></b>	
Operating cash flows	3.42
Investing cash flows	3.42
Financing cash flows	3.42
Year end cash and cash equivalents	3.25
<b><i>Financial information outside financial statements</i></b>	
Auditor's report	3.83
Financial review	3.33
Accounting policies	3.50
Revenue to number of staff	2.42
Total asset to number of staff	2.33
Revenue to cost of service	2.67
Return on assets	2.92
Actual to budget comparison	3.67
Information about cost of service/activity	3.25
Assessment tax rates	3.08
<b>Future-related information</b>	
Future plans	3.58
Future performance targets	3.33
Information pertaining to future capital improvements	2.83

#### **8.4.1 Determination of Quality Criteria**

As discussed in Chapter Six, all information items that formed the index were classified into two categories – either single-information items or multiple-information items. This approach was followed on the grounds that annual reports contain information items that may be either disclosed or not disclosed. Where no variable amounts of detail are involved (for example, items of financial statements and financial ratios), such items come under the single-information item category. Other information items may be disclosed with variable amounts of detail which may include narrative explanations and justifications and form a second, multiple-information item category. The detail of these items was rated based on the inclusion of their pre-determined quality criteria.

As mentioned in Chapter Six, the quality criteria for the items were identified from various sources which include prior studies, professional bodies' published recommendations and the related statutory guidelines issued by the Malaysian government agencies. In addition, some of the criteria were based on suggestions by the panel members during the Delphi exercise. Appendix N lists the items that were classified as multiple-information items, the criteria for assessing the quality of the disclosures and the source of those criteria. Having determined the criteria, the full disclosure index is finalised and presented in Appendix O.

### **8.5 CHAPTER SUMMARY**

This chapter reports the results obtained from the expert opinion-seeking exercise, the Delphi exercise. The results have answered two research questions, as outlined in the introductory section, in relation to information items necessary for assessing and monitoring the performance of local authorities and the information disclosure importance that the experts agreed upon. The experts confirmed all seventy-one information items initially identified by the broad group of stakeholders and agreed on nine additional items. The experts considered both financial and non-financial aspects important for disclosure but perceived financial information, especially the auditors' report and financial statement items, as the most important items. The information necessary for assessing and monitoring the performance of local authorities that should be disclosed in annual reports of local authorities and the information disclosure



importance agreed by the experts was used in the development of the disclosure index. The index was applied to the annual reports of local authorities in order to determine the extent and quality of information disclosure. The results of the analysis are reported in the following chapter.

## CHAPTER NINE

### RESULTS AND DISCUSSION: EXTENT AND QUALITY OF PERFORMANCE REPORTING AND ACCOUNTABILITY THROUGH REPORTING

#### 9.1 INTRODUCTION

Chapter Six discussed the annual report scoring process and Chapter Eight presented the disclosure index that was used in evaluating the contents of annual reports of Malaysian local authorities. This chapter reports and discusses the results obtained from an evaluation of the extent and quality of annual report disclosures of performance information. The results reported and discussed in this chapter address the last three research questions.

##### *Research Question 6*

What is the extent and quality of disclosure of information within the annual reports of Malaysian local authorities?

##### *Research Question 7*

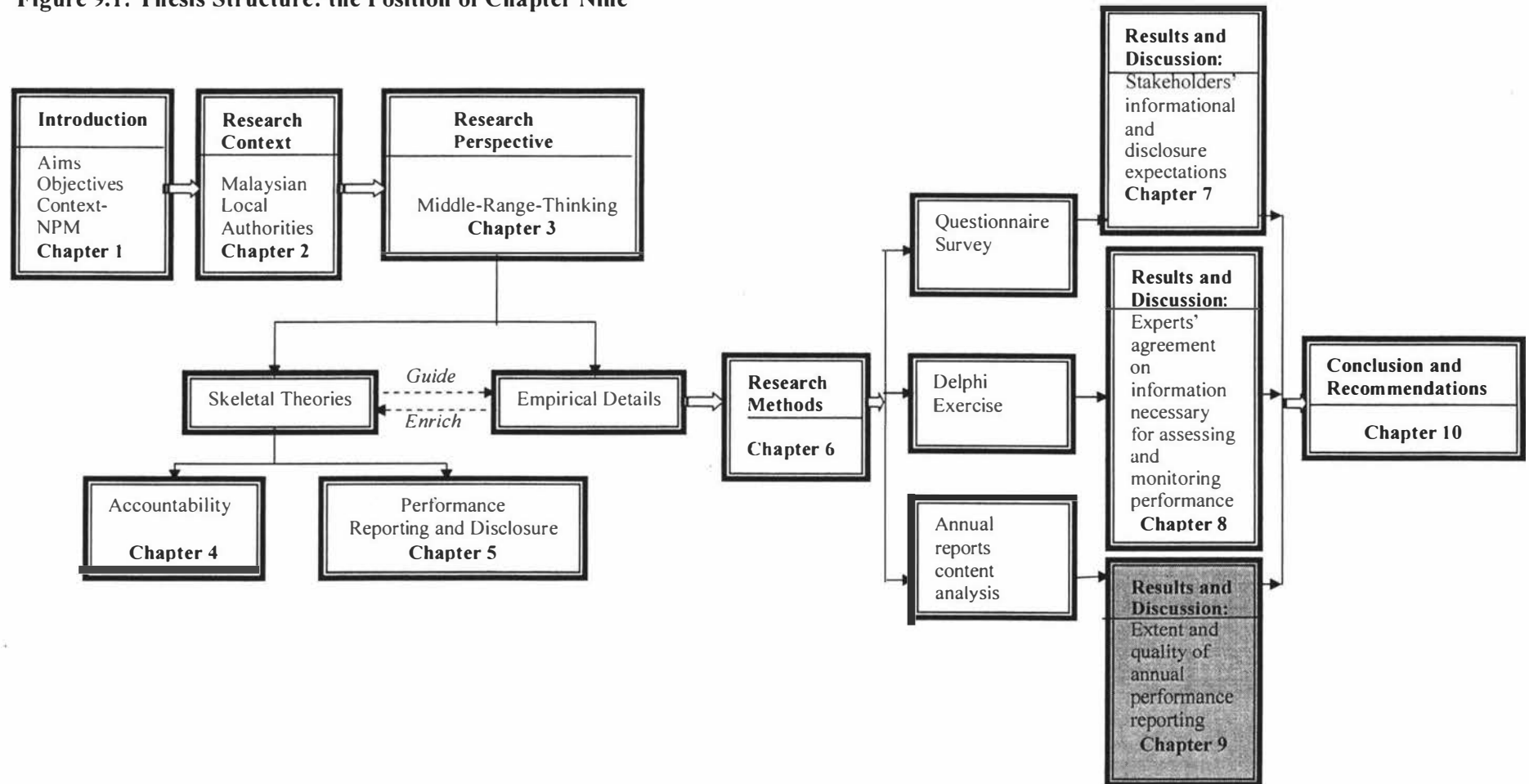
Does the information being disclosed in the annual reports of local authorities meet the expectations of stakeholders?

##### *Research Question 8*

To what extent is accountability being discharged through annual performance reporting of local authorities'?

In order to enable a deeper understanding of the results, an overview of the scoring process and annual report samples are presented in Sections 9.2 and 9.3 respectively. The results obtained from the content analysis of annual reports are reported in Section 9.4. Section 9.5 provides a discussion of the results which includes a discussion of the extent to which accountability is being discharged through local authority annual performance reporting. Section 9.6 summarises the chapter. Figure 9.1 shows the position of this chapter in relation to the thesis.

**Figure 9.1: Thesis Structure: the Position of Chapter Nine**



## 9.2 OVERVIEW OF THE SCORING PROCESS

In the scoring process, each annual report was analysed and the information items that formed the index were scored. As discussed in Chapter Six, the items were divided into two categories – single-information items and multiple-information items (items that contain pre-determined quality criteria). If a single-information item was disclosed, the score of ‘1’ was allocated and this was multiplied by the disclosure importance weighting. Multiple-information items were scored on the basis of pre-determined quality criteria identified based on prior studies, professional bodies’ published recommendations and statutory requirements for other public sector entities used by Malaysian local authorities as guidelines in accounting and reporting. The allocated score was multiplied by the importance weighting for that item (see Chapter Six for the detailed scoring procedure). If the information was not relevant to the particular local authority, an ‘n/a’ score was allocated and the score was not included in the calculation of the total possible score for that annual report. The entire annual report was read and evaluated to determine whether the particular index item was relevant to the local authority.

This procedure was followed for all local authority annual reports over the period 2003 - 2005. The researcher and another scorer independently analysed and scored all of the annual reports. The resulting scores of each scorer were compared and each occurrence of disagreement was discussed. All discrepancies were resolved through the clarification of the criteria until both parties were satisfied and a consensus was reached for each item. After all of the individual rating worksheets had been completed, the scores were transferred to a master worksheet according to each local authority (with each allocated one row). Appendices P(i) and P(ii) provides examples of the quality criteria assessment for two multiple-information items and Appendix P (iii) presents the results of the scoring on a local authority annual report, showing item-by-item, category and the entire annual report's scores.

### 9.3 OVERVIEW OF THE ANNUAL REPORT SAMPLES

As discussed in Chapter Six, initial contact with each of the thirty-eight city and municipal councils in Peninsular Malaysia involved in this research indicated that all local authorities, as required by the Local Government Act 1976, annually prepare and publish financial reports. The publication of comprehensive annual reports that include financial reports, service reports and other information related to local authorities or the publication of stand-alone annual service reports (with other information regarding local authorities) is carried out on a voluntary basis only. It was found that of the thirty-eight local authorities contacted, five (13 percent) had issued comprehensive annual reports (which consist of both financial and service reports combined), eight (21 percent) had issued stand-alone annual service reports in addition to annual financial reports and twenty-five local authorities (66 percent) issued only annual financial reports over the period 2003 through 2005. The focus of the current research is with local authorities that published financial and service performance reports.

The thirteen local authorities that published both financial and service performance reports were asked to provide copies of their reports for 2003, 2004 and 2005<sup>36</sup>. However, not all of them had published both financial and service performance reports for the three consecutive years of the research (2003, 2004 and 2005). As shown in Table 9.1, of the thirteen local authorities, one local authority (LA4) only began the publication of financial and service performance reports in 2005 (prior to 2005, only financial reports were published). There was no publication of service reports (only financial reports) for two local authorities in 2003 (LA6 and LA13) and one local authority in 2004 (LA3). Another local authority (LA12) was not ready to distribute its 2005 financial and service performance reports. This left only ten annual reports (either comprehensive annual reports or stand alone financial and service performance reports) ready for analysis in 2003, eleven in 2004 and twelve in 2005. Therefore, this research involved case studies of the thirty-three annual reports over the three year period, comprising twelve annual reports of city councils and twenty-one reports of municipal councils. This small sample is not a representative sample of reporting throughout the population and limits the ability to generalise the findings. However, given that the aim of this research is to describe the practice of performance reporting within the annual

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<sup>36</sup> Please refer to Section 6.2.3.2 of Chapter Six for the justifications to the selection of the years 2003, 2004 and 2005.

reports of Malaysian local authorities, the results from this sample are considered sufficient to provide insight into the reporting practices.

**Table 9.1: Annual Report Samples by Year and Type of Local Authority, and Average Revenue and Total Assets of Each Local Authority for the Period of 2003 to 2005**

Local Authority	Type of Local Authority	Average Revenue 2003-2005 (MYR)	Average Total Assets 2003-2005 (MYR)	Type of Report Published		
				2003	2004	2005
LA 1	City council	124 million	161 million	FR + SR	FR + SR	FR + SR
LA 2	Municipal council	33 million	72 million	FR + SR	FR + SR	FR + SR
LA 3	Municipal council	21 million	25 million	FR + SR	FR	FR + SR
LA 4	Municipal council	30 million	68 million	FR	FR	FR + SR
LA 5	Municipal council	143 million	193 million	FR + SR	FR + SR	FR + SR
LA 6	Municipal council	148 million	285 million	FR	FR + SR	FR + SR
LA 7	City council	168 million	264 million	FR + SR	FR + SR	FR + SR
LA 8	City council	174 million	392 million	FR + SR	FR + SR	FR + SR
LA 9	City council	105 million	175 million	FR + SR	FR + SR	FR + SR
LA 10	Municipal council	21 million	85 million	FR + SR	FR + SR	FR + SR
LA 11	Municipal council <sup>37</sup>	11 million	18 million	FR + SR	FR + SR	FR + SR
LA 12	Municipal council	116 million	251 million	FR + SR	FR + SR	-
LA 13	Municipal council	62 million	55 million	FR	FR + SR	FR + SR
<b>Total FR and SR published and received by the researcher for content analysis</b>				<b>10</b>	<b>11</b>	<b>12</b>

Note: FR denotes annual financial reports and SR denotes annual service reports.

LA 12 did prepare FR and SR in 2005 but the preparation for publication was not completed and therefore the reports were not ready for distribution at the time the reports were requested.

As is also shown in Table 9.1, the samples comprise annual reports of city and municipal councils. The average annual revenue for all city councils involved in the samples ranges from MYR100 million to MYR175 million, while the average annual revenue for all municipal councils involved ranges between MYR10 million and MYR150 million. The city councils also have a stronger position in terms of total assets than the municipal councils. The average total assets position of the city councils ranges from MYR160 million to MYR395 million, whereas the municipal councils on average have total assets of MYR18 million to MYR285 million during the three-year period.

<sup>37</sup> Prior to June 2008, to be classified as a municipal council, the annual revenue should be more than MYR5 million. However, as at 3<sup>rd</sup> June 2008, this has been increased to MYR20 million (source: the Ministry of Housing and Local Government, [www.kpkt.gov.my](http://www.kpkt.gov.my)).

## 9.4 EXTENT AND QUALITY OF DISCLOSURE

This section presents the results of the analysis of the contents of annual reports. The analysis involved two types: (i) analysis of annual report final and category scores, and (ii) item-by-item analysis of scores. The scores indicate the extent and quality of disclosure in the annual reports of local authorities.

The extent and quality of disclosure was measured by applying a disclosure index of information items and pre-determined quality criteria to disclosures in the local authorities' annual reports. The information items and the weighting for importance of each item were agreed by a Delphi expert panel and these also act as proxies for the expectations of the broad stakeholder groups. The measure is classified as a weighted measure for extent and quality of disclosure<sup>38</sup>. The scores are weighted to indicate their relative importance and were calculated as follows:

$$\text{Weighted Score} = \frac{\text{Actual Allocated Score} \times \text{Weighting for Importance}}{\text{Maximum Possible Score} \times \text{Weighting for Importance}} \times 100$$

The following sub-sections report the annual report final and category scores and the score of each item within each category.

### 9.4.1 Annual Report Final and Category Scores

The results in Table 9.2 show that over the period 2003 to 2005, on average, the extent and quality of annual report is relatively low. The final score for the three-year period ranged between the lowest of 27.0 percent to the highest of 45.3 percent and the mean score was only 36.5 percent. The mean of 36.5 percent and median score of 36.2 percent indicates that most local authorities did not achieve a high score over the three-year period. Across the three years, the extent and quality scores of the majority of local authorities were on average between 35 percent and 45 percent. No local authority annual reports scored above 45.3 percent. Despite the low score for the overall extent and quality of annual reports in each of the three years, the results reported in Table 9.2

<sup>38</sup> This research used weighted measures in the analysis of the scores. The same analysis using un-weighted scores was also performed. Little difference was found in the resulting means and standard deviations of both weighted and un-weighted scores (Weighted (2003-2005): mean = 36.5; median = 36.2; Unweighted (2003-2005): mean = 36.4; median = 36.7). However, weighted scores indicate the relative importance of each disclosure item and are therefore used in the analysis of the results.

show incremental changes in the scores across the years. The mean score changed from 35.0 percent in 2003 to 36.7 percent in 2004, and 37.5 percent in 2005.

**Table 9.2: Annual Report Final and Category Scores (Normalised to 100)**

	<b>2003- 2005 (n=33)</b>	<b>2003 (n=10)</b>	<b>2004 (n=11)</b>	<b>2005 (n=12)</b>
<b>Final Score:</b>				
Mean	36.5	35.0	36.7	37.5
Median	36.2	35.3	36.5	38.2
Highest	45.3	41.8	45.3	45.3
Lowest	27.0	27.0	27.0	27.0
Standard deviation	4.94	3.76	5.18	5.66
<b>Category Mean Score:</b>				
Overview and operational (20 items) <sup>1</sup>	48.5	46.7	48.2	50.3
Non-financial performance (16 items)	16.6	14.6	17.6	17.4
Financial:				
Statement of revenue and expenditure (9 items)	66.7	66.7	66.7	66.7
Balance sheet (19 items)	39.1	38.2	40.1	38.8
Cash flow statement (5 items)	98.8	100	98.2	98.3
Financial information outside financial statements (10 items)	30.0	30.1	28.8	31.8
Financial-all sub-categories (43 items)	46.0	46.2	46.2	46.1
Future-related information (3 items)	11.5	4.60	12.2	16.6

Note: n denotes number of sampled annual reports

<sup>1</sup> Excluding item 'Auditor general department's rating of financial management' which was not applicable in the period of study and not evaluated.

As shown in Table 9.2, a more detailed analysis by index category highlights the particular areas of change in mean scores across the three years that might be driving the change in the total annual report scores. The categories that show incremental changes in the mean score for extent and quality of disclosure over the three years are '*overview and operational*', '*non-financial performance*' and '*future-related information*'. Although there is a relatively significant improvement in the extent and quality of reporting for the '*future-related information*' category from 2003 to 2004 (165 percent) and a 36 percent improvement in the quality from 2004 to 2005, this category is the weakest area of annual reporting with a mean score across the three years of only 11.5 percent. This contributes significantly to the low score for extent and quality of the entire annual reports and is due to the fact that only one annual report disclosed all of the three items in this category and a majority of the reports (22 out of 33 reports) did not disclose any of the items.



The second lowest score across the three years is in the '*non-financial performance*' category with a mean score of 16.6 percent. It was found that, on average, fewer than 40 percent of the total sixteen items within this category were present in the annual reports and the degree of detail of the items disclosed was relatively limited. As reported in Table 9.2, the scores for extent and quality of disclosure for the '*overview and operational*' category across the three years were relatively high. This is because 60 to 64 percent of the total evaluated items within this category were disclosed. However, the detail of disclosure of items within this category was also limited and can still be improved.

The '*financial*' category in aggregate appears to be stable across the three years. The mean scores for '*cash flow statement*' and '*statement of revenue and expenditure*' remain high and constant across the period. While the mean score of '*balance sheet*' showed a small increase in 2004, with a slight decrease in 2005, the mean scores of '*financial information outside financial statements*' slightly decreased in 2004 and then showed an increment in 2005. The '*cash flow statement*' category scored the highest with an average of 98.8 percent across the three years. Over the period, the lowest score within the '*financial*' category is in the area of '*financial information outside financial statements*', with the mean score of 30.0. This low score is due to non-disclosure of the majority of items within this category. Out of the ten items placed within this category, most of the sampled annual reports during the period disclosed only four items (40 percent). The disclosure of the relevant quality criteria for these items was also found to be limited. This implies that a lot of improvement is needed in terms of the detail of disclosure of the majority of the items in this category.

#### **9.4.2 Item-by-Item Scores**

This section provides item-by-item scores for each category. Tables 9.3 through to 9.6 present the mean score for extent and quality of disclosure of each information item within each category in 2003, 2004 and 2005. The tables also compare the mean score for extent and quality of disclosure of each item over the three-year period with its relative importance as agreed by the expert stakeholder panel. Where there is a substantial difference between the actual and the expected level of disclosure, the presence of an 'information gap' is recognised, in that, what is expected and acknowledged as important by the experts is inconsistent with the actual level of

disclosure. For example (see Table 9.3), an ‘information gap’ occurs for item ‘*statement of objectives*’ as the expected level of disclosure is ‘very important’ and yet the actual level of disclosure for over the three years is of only ‘minor importance’ (based on its mean score of 1.82). Appendix Q provides the details of item-by-item scores for each category which include the percentage of mean score to maximum score, the highest and lowest scores recorded and the average raw score.

#### **9.4.2.1 Items within the ‘Overview and Operational’ Category**

As shown in Table 9.3 (see also Appendix Q (i)), only three items within the ‘*overview and operational*’ category met the panel’s disclosure expectations (‘very important’ or ‘quite important’) – ‘*area of administration*’ (in 2003 and 2005), ‘*acknowledgement/award received from state and federal government*’, ‘*activity/programme that involved community participation*’.

The item with the highest mean score (2.91) over the three-year period is ‘*area of administration*’. This item was rated as ‘very important’ by the expert panel. Although the disclosure of this item over the three-year period and in 2004 was below the panel’s expectations, the disclosures in 2003 and 2005 met the expectations. More than 95 percent of the total local authority annual reports over the period disclosed the item with a description of the area of administration within their localities. The items ‘*occupational health and safety*’ and ‘*role and responsibility of councillors*’ were rated as ‘quite important’ by the expert stakeholder panel and yet the mean score of each of these items indicates that no local authority disclosed these items over the three-year period.

**Table 9.3: Scores of Items within the 'Overview and Operational' Category**

Item	Experts' Weighting for Importance	Weighted Mean Score				Level of Importance <sup>1</sup>
		2003 (n=10)	2004 (n=11)	2005 (n=12)	2003-2005 (n=33)	
Statement of objectives	3.42	1.98	1.62	1.88	1.82	<i>Very important</i>
Mayor's/President's report	3.33	0.67	1.45	1.11	1.09	<i>Very important</i>
Organisation structure	3.08	2.34	2.18	2.05	2.18	<i>Very important</i>
Role and responsibility of councillors	2.83	0	0	0	0	<i>Quite important</i>
Area of administration	3.00	3.00	2.73	3.00	2.91	<i>Very important</i>
Scope of authority of LA and other relevant agencies	2.92	1.17	1.06	0.73	0.97	<i>Quite important</i>
Internal control	3.25	1.73	1.58	1.36	1.54	<i>Very important</i>
Environmental management	3.00	0.80	0.73	0.50	0.67	<i>Very important</i>
Personnel	2.67	1.42	1.62	1.93	1.67	<i>Quite important</i>
Occupational health & safety	2.83	0	0	0	0	<i>Quite important</i>
Working environment	2.92	1.46	1.42	1.70	1.53	<i>Quite important</i>
Training programmes for staff	2.75	0.73	0.83	1.07	0.89	<i>Quite important</i>
Review of operations	3.33	2.11	2.22	2.22	2.19	<i>Very important</i>
Summary facts and figures	3.08	1.79	1.79	1.69	1.75	<i>Very important</i>
Challenges in undertaking services/activities	2.92	0.58	0.80	0.73	0.71	<i>Quite important</i>
Factors that influenced the current status of performance achievement	3.08	0.31	0.84	1.03	0.75	<i>Very important</i>
Auditor General Department's rating of financial management <sup>2</sup>	2.92	n/a	n/a	n/a	n/a	Quite important
Public complaints that have been resolved	3.17	2.54	2.31	2.11	2.31	<i>Very important</i>
Acknowledgement/award received from State and Federal Government <sup>3</sup>	2.83	2.83	2.83	2.83	2.83	Quite important
Efforts in generating more revenue	3.33	1.00	1.51	1.94	1.51	<i>Very important</i>
Activity/programme that involved community participation	2.83	2.26	2.32	2.36	2.32	Quite important

Note: <sup>1</sup> Level of importance as agreed by the expert panel (Very important = mean scores of 3 and between 3.00 and 4.00; Quite important = mean scores of 2 and between 2.00 and 3.00). The level of importance stated in italic indicates an information gap i.e. a gap between the allocated score and the level of importance of the items.

<sup>2</sup> This item was not applicable in the period of study and was not included in the evaluation. The item was included in the index for future application of the index.

<sup>3</sup> It was assumed that a local authority had disclosed the information if it received an acknowledgement or award in the particular year. If the authority did not receive any acknowledgement or award, it was assumed that there was no disclosure of the item and thus the item was not applicable to the annual reports of the particular local authority, 'n/a' was allocated and was excluded in the calculation of the maximum possible score. Over the three years, 13 annual reports were allocated 'n/a' for the item.

Weakness in disclosure also appeared in the areas of *'environmental management'* (0.67), *'challenges in undertaking services/activities'* (0.71), *'factors that influenced the current status of performance achievement'* (0.75), *'training programmes for staff'* (0.89) and *'scope of authority of local authority and other relevant agencies'* (0.97). These low scores are mainly due to non-disclosure of these items. More than 60 percent of the annual reports of local authorities over the three-year period did not disclose these information items, although the expert panel rated these items as 'very important' and 'quite important' for disclosure. In respect of *'environmental management'*, local authorities that disclosed this information failed to provide a description of the exact programme undertaken, although they expressed their concern for environmental issues.

With regards to the item *'training programme for staff'*, the majority of the annual reports that disclosed this item did not describe the outcomes of the programme although they did indicate the training programmes that had been carried out for a particular group of employees. Only a few of the annual reports that disclosed this item also provided information on the output of the programme such as the number of employees that had successfully completed the training programme.

Table 9.3 also shows the other disclosure items that also contributed to the low score for this category over the three-year period: *'statement of objectives'* (1.82), *'mayor's/president's report'* (1.09), *'internal control'* (1.54), *'summary facts and figures'* (1.75), and *'efforts in generating more revenue'* (1.51), despite the fact that the expert panel had rated these items as 'very important' for disclosure. For *'statement of objectives'*, although the majority of the annual reports (82 percent) disclosed this item, discussion of involvement in establishing the goals and objectives was not been included, the objectives were not reported in measurable dimensions and there was no reference to a particular time-frame. For *'internal control'*, there was no description about the review of the internal control system implemented. In addition, for the majority of the sampled annual reports (73 percent) across the period, the *'summary facts and figures'* item was only reported by reference to service/activity achievements for the current and previous year. The information about *'summary facts and figures'* was not reported in a separately titled section. In the majority of reports there was no discussion of trends and no use of illustration. For *'efforts in generating more revenue'*, the item was perceived as being 'very important' for disclosure and yet eighteen annual reports (55 percent) over the three-year period did not disclose this item. The disclosure

of other items – *‘organisation structure’*, *‘personnel’*, *‘working environment’*, *‘review of operations’* and *‘public complaints that have been resolved’* - was more adequate and near to the panel’s expectations.

#### **9.4.2.2 Items within the ‘Non-Financial Performance’ Category**

As reported in Table 9.2, the *‘non-financial performance’* information category appeared to be the second weakest area of reporting with a mean score of 16.6 percent across the three-year period. The main factor causing this low category score is the non-disclosure of almost all performance measures.

As shown in Table 9.4 (see also Appendix Q (ii)), although the expert panel regarded performance measures as *‘very important’* and *‘quite important’* for disclosure, only input and output measures were disclosed although the scores were very low (0.83 for input measures and 0.96 for output measures over the three-year period). In terms of quality criteria, only the basis for assessing the results for key services or activities was presented. Other quality criteria, such as an analysis of achievement of performance targets, a comparison between performance and objectives or some indication of benchmarking, were not included.

The low category score over the three years also resulted from the low scores recorded for several other items – *‘performance of contractors responsible for providing contracted services’* (0.19), *‘report on the use of government grants’* (0.27), *‘comparison between actual and target achievement’* (0.66), and *‘non-financial performance targets’* (0.75). These items were rated by the expert panel as *‘very important’* for disclosure. However, the majority of the sampled annual reports (85 to 94 percent) did not disclose these items and those that did, reported limited amounts of information. This was also the case for all other items in this category.

**Table 9.4: Scores of Items within the 'Non-Financial Performance' Category**

Item	Experts' Weighting for Importance	Weighted Mean Score				Level of Importance <sup>1</sup>
		2003 (n=10)	2004 (n=11)	2005 (n=12)	2003-2005 (n=33)	
Goals and objectives of services/activities	3.08	0.93	1.12	1.37	1.15	<i>Very important</i>
Non-financial performance targets	3.08	0.51	0.84	0.86	0.75	<i>Very important</i>
Input measures	2.58	0.83	0.84	0.82	0.83	<i>Quite important</i>
Output measures	3.00	0.90	1.09	0.90	0.96	<i>Very important</i>
Impact measures	3.00	0	0	0	0	<i>Very important</i>
Efficiency measures	2.92	0	0	0	0	<i>Quite important</i>
Effectiveness measures	3.08	0	0	0	0	<i>Very important</i>
Customer satisfaction measures	3.00	0	0	0	0	<i>Very important</i>
Productivity measures	3.00	0	0	0	0	<i>Very important</i>
Comparison between actual and target achievement	3.25	0.54	0.69	0.72	0.66	<i>Very important</i>
Comparison between current and previous year's achievement	3.33	1.67	2.02	1.76	1.82	<i>Very important</i>
Report on the use of government grants	3.00	0.30	0.27	0.25	0.27	<i>Very important</i>
Performance of contractors responsible for providing contracted services	3.17	0.32	0.29	0	0.19	<i>Very important</i>
Achievement of specific programmes as ordered by State/Federal Government	3.08	0.92	1.40	1.28	1.21	<i>Very important</i>
Contracted-out service/activity	3.00	1.50	1.09	1.25	1.27	<i>Very important</i>
Improvement programme of service delivery system	3.00	0.30	0.82	1.75	1.00	<i>Very important</i>

Note: <sup>1</sup> Level of importance as agreed by the expert panel (Very important = mean scores of 3 and between 3.00 and 4.00; Quite important = mean scores of 2 and between 2.00 and 3.00). The level of importance stated in italic indicates an information gap i.e. a gap between the allocated score and the level of importance of the items.

### 9.4.2.3 Items within the '*Financial*' Category

Two financial areas that impacted positively on the '*financial*' category score of 46.2 percent throughout 2003 and 2005 (see Table 9.2) are the '*cash flow statement*' and '*statement of revenue and expenditure*' items. All '*cash flow statement*' items were disclosed (except for one annual report each in 2004 and 2005 which did not disclose the '*financing cash flows*' item) and a previous year comparison for the statement was provided. Over the three-year period, all items within the '*statement of revenue and expenditure*' category were well disclosed except for the items '*revenue according to activities/services rendered*', '*gross expenditure according to service*' and '*net expenditure according to service*', which were not disclosed at all in any of the annual reports over the period.

Table 9.2 shows that the two areas within the '*financial*' category which had a negative impact on the category's score for extent and quality of disclosure were '*financial information outside financial statements*' (the category score of 30.0 percent) and '*balance sheet*' (the category score of 39.1 percent).

As shown in Table 9.5 (see also Appendix Q (iii)), the main factor contributing to the weakness in the '*financial information outside financial statements*' sub-category was the non-disclosure of financial ratios of the local authorities over the three-year period. As the expert panel considered disclosure of the ratios – '*revenue to number of staff*', '*total asset to number of staff*', '*revenue to cost of service*' and '*return on assets*' – as 'quite important', expectations are not being met with respect to the disclosure of these information items.

**Table 9.5: Scores of Items within the 'Financial' Category**

Item	Experts' Weighting for Importance	Weighted Mean Score				Level of Importance <sup>1</sup>
		2003 (n=10)	2004 (n=11)	2005 (n=12)	2003-2005 (n=33)	
<i>Statement of Revenue and Expenditure:</i>	3.16	3.16	3.16	3.16	3.16	Very important
Revenue according to activities or services rendered	3.25	0	0	0	0	<i>Very important</i>
Revenue according to source of revenue	3.25	3.25	3.25	3.25	3.25	Very important
Total revenue	3.25	3.25	3.25	3.25	3.25	Very important
Gross expenditure according to service	3.17	0	0	0	0	<i>Very important</i>
Net expenditure according to service	3.08	0	0	0	0	<i>Very important</i>
Expenditure classified by nature or function	3.00	3.00	3.00	3.00	3.00	Very important
Total expenditure	3.25	3.25	3.25	3.25	3.25	Very important
Total excess/surplus	3.00	3.00	3.00	3.00	3.00	Very important
<i>Balance Sheet:</i>	3.11	3.11	3.11	3.11	3.11	Very important
Operational assets at cost	3.08	0	0	0	0	<i>Very important</i>
Operational assets at market value	3.08	0	0	0	0	<i>Very important</i>
Non-operational assets at cost	2.83	0	0	0	0	<i>Quite important</i>
Non-operational assets at market value	2.83	0	0	0	0	<i>Quite important</i>
Community assets at cost	2.83	0	0	0	0	<i>Quite important</i>
Community assets at market value	2.92	0	0	0	0	<i>Quite important</i>
Infrastructure assets at cost	3.00	0	0	0	0	<i>Very important</i>
Infrastructure assets at market value	3.00	0	0	0	0	<i>Very important</i>
Total fixed assets	3.58	3.58	3.58	3.58	3.58	Very important
Deferred charges	2.75	1.10	1.25	0.92	1.08	<i>Quite important</i>
Long-term investments	3.33	0.67	0.91	0.83	0.81	<i>Very important</i>
Long-term debtors	3.25	0.65	0.59	0.54	0.59	<i>Very important</i>
Current assets	3.50	3.50	3.50	3.50	3.50	Very important
Current liabilities	3.33	3.33	3.33	3.33	3.33	Very important

Note: <sup>1</sup> Level of importance as agreed by the expert panel (Very important = mean scores of 3 and between 3.00 and 4.00; Quite important = mean scores of 2 and between 2.00 and 3.00). The level of importance stated in italic indicates an information gap i.e. a gap between the allocated score and the level of importance of the items.



Table 9.5 Cont..

Item	Experts' Weighting for Importance	Weighted Mean Score				Level of Importance <sup>1</sup>
		2003 (n=10)	2004 (n=11)	2005 (n=12)	2003-2005 (n=33)	
Long-term borrowings	3.25	1.63	2.07	1.90	1.87	<i>Very important</i>
Deferred liabilities	3.25	0.33	0.30	0.27	0.30	<i>Very important</i>
Deferred credits – government grants	2.83	1.42	1.80	1.65	1.63	<i>Quite important</i>
Reserves	3.25	3.25	3.25	3.25	3.25	Very important
<i>Cash Flows Statement:</i>	3.38	3.38	3.38	3.38	3.38	Very important
Operating cash flows	3.42	3.42	3.42	3.42	3.42	Very important
Investing cash flows	3.42	3.42	3.42	3.42	3.42	Very important
Financing cash flows	3.42	3.42	3.11	3.14	3.21	Very important
Year end cash and cash equivalents	3.25	3.25	3.25	3.25	3.25	Very important
<i>Financial Information Outside Financial Statements:</i>						
Auditor's report	3.83	3.83	3.83	3.83	3.83	Very important
Financial review	3.33	1.13	1.09	1.06	1.09	<i>Very important</i>
Accounting Policies	3.50	3.50	3.50	3.50	3.50	Very important
Revenue to number of staff	2.42	0	0	0	0	<i>Quite important</i>
Total asset to number of staff	2.33	0	0	0	0	<i>Quite important</i>
Revenue to cost of service	2.67	0	0	0	0	<i>Quite important</i>
Return on assets	2.92	0	0	0	0	<i>Quite important</i>
Actual to budget comparison	3.67	0.74	0.67	0.82	0.74	<i>Very important</i>
Information about cost of service/activity	3.25	1.19	0.98	1.17	1.12	<i>Very important</i>
Assessment tax rates	3.08	0.10	0.09	0.17	0.12	<i>Very important</i>

Note: <sup>1</sup> Level of importance as agreed by the expert panel (Very important = mean scores of 3 and between 3.00 and 4.00; Quite important = mean scores of 2 and between 2.00 and 3.00). The level of importance stated in italic indicates an information gap i.e. a gap between the allocated score and the level of importance of the items.

The weakness in the *'financial information outside financial statements'* sub-category can also be associated with the very low mean scores over the three-year period for information on *'assessment tax rates'* (0.12) and *'actual to budget comparison'* (0.74). Although the expert panel regarded these items as 'very important' for disclosure, the majority of sampled annual reports over the period gave no information at all regarding these items (88 percent of the total annual reports for *'assessment taxes/rates'* and 70 percent for *'actual to budget comparison'*). With regards to quality criteria, the majority of the sampled annual reports that disclosed *'assessment taxes/rates'* only reported the rates according to type of property. No comparison with the previous year's rates was made and no explanation for the decrease or increase of the rates was given. However, as shown in Table 9.5, two items – *'auditor's report'* and *'accounting policies'* – which were regarded by the expert panel as 'very important' for disclosure, were well disclosed.

In respect of *'balance sheet'* items, the weakness can mainly be attributed to the non-disclosure of the breakdown of fixed assets into operational, non-operational, community and infrastructure assets at cost and market value. All sampled annual reports disclosed only *'total fixed assets'* in the balance sheet statement and gave details of the disclosed item in the notes to the accounts by showing the breakdown of fixed assets into *'property, plant and equipment'* which is similar to the disclosure of fixed assets in the annual reports of Malaysian private companies and statutory bodies.

#### **9.4.2.4 Items within the *'Future-Related Information'* Category**

As reported earlier in Table 9.2, the weakest area of reporting was in the *'future-related information'* category with a score for extent and quality of only 11.5 percent throughout 2003 to 2005. This was a result of low scores for all three items in this category (see Table 9.6 and Appendix Q (iv)). As shown in Table 9.6, except for the mean score for *'future plans'* in 2005, the mean score of each of the items in each year is below 1.0. Although the expert panel regarded the items as 'very important' or 'quite important' for disclosure, the majority of the sampled annual reports (more than 75 percent) did not disclose information on any of the *'future-related information'* items. However, those that did disclose provided detailed information. The next section focuses on the disclosures of the highest and lowest scoring entities.

**Table 9.6: Scores of Items within the 'Future-Related Information' Category**

Item	Experts' Weighting for Importance	Weighted Mean Score				Level of Importance <sup>1</sup>
		2003 (n=10)	2004 (n=11)	2005 (n=12)	2003-2005 (n=33)	
Future Plans	3.58	0.36	0.65	1.19	0.76	<i>Very important</i>
Future performance targets	3.33	0.11	0.40	0.37	0.30	<i>Very important</i>
Information pertaining to future capital improvements	2.83	0	0	0.24	0.09	<i>Quite important</i>

Note: <sup>1</sup> Level of importance as agreed by the expert panel (Very important = mean scores of 3 and between 3.00 and 4.00; Quite important = mean scores of 2 and between 2.00 and 3.00). The level of importance stated in italic indicates an information gap i.e. a gap between the allocated score and the level of importance of the items.

#### 9.4.3 The Highest and Lowest Score for Extent and Quality of Disclosure

The highest scoring annual report over 2003 to 2005 was the annual report of a municipal council, with a final score of 45.3 percent in 2004 and 2005. The council's annual reports received a full score of 100 percent for the '*cash flow statement*' category. The '*statement of revenue and expenditure*', '*overview and operational*' and '*financial information outside financial statement*' categories were also well reported with scores of 67 percent for the former and 63 percent for each of the latter categories. All of the nine '*financial information outside financial statement*' items, except for three items related to the revenue and expenditure according to service, were disclosed. A total of fifteen out of twenty evaluated items within the '*overview and operational*' category were disclosed, six of which received maximum scores for each item and a further nine items of which received more than 60 percent of the maximum score. The items related to '*role and responsibility of councillors*' and '*occupational health and safety*' were not disclosed, however these items were not disclosed in any of the other local authorities' annual reports. The items, '*challenges in undertaking services/activities*', '*factors that influenced the current status of performance achievement*' and '*training programmes for staff*', which were considered as 'very important' and 'quite important' by the expert panel were not disclosed.

The score received by the above municipal council for the '*financial information outside financial statement*' category was the highest among the scores allocated to annual reports of the other local authorities over the period. A total of six out of ten items within this category were disclosed. An '*auditor's report*' was included and the '*accounting policies*' employed were described. In respect of '*financial review*', '*actual to budget comparison*', '*information about cost of service/activity*' and '*assessment tax rates*', all of the quality criteria of each of these items were provided except the criteria that required explanations to be made – '*explanation of financial trends*', '*explanation of significant differences between actual and budget revenues and expenditures*', and '*explanation of decrease or increase of assessment tax rates*'. Four items related to financial ratios were not disclosed, although they were considered as 'quite important' for disclosure by the expert panel. However, these items were not disclosed in any of the other annual reports over the three year period.

While the above three categories were well reported in the municipal council's annual report for 2005, the disclosure of '*non-financial performance*' (17 percent) and '*balance sheet*' (34 percent) are considered as poorly reported and in need of improvement. A total of eleven out of sixteen items within the '*non-financial performance*' category were not disclosed although each was regarded as 'very important' for disclosure by the expert panel. The undisclosed items were related to performance targets, performance measures, the use of government grants, the performance of contractors, achievement of programmes ordered by the government and improvement of service delivery. The items that were disclosed but lacked detailed information were '*goals and objectives of services/activities*', '*input and output measures*', '*comparison between actual and target achievement*' and '*comparison between current and previous year's achievement*'. Similar to the other annual reports over the period, no disclosure of specific types of fixed asset was made under the '*balance sheet*' category in the municipal council's annual report for 2005.

The '*future-related information*' items were regarded as being 'very important' and 'quite important' for disclosure by the expert panel. However, neither of these levels of importance was reflected by the actual disclosure in the municipal council's report. The council gave no information at all for this category.

The lowest scoring annual report was that of a city council. This council scored only 27 percent for its annual report in each of the three years, indicating no change in the extent and quality of disclosure over the period. Only two categories, '*cash flow statement*' and '*statement of revenue and expenditure*', were well reported, receiving scores of 100 percent and 67 percent respectively. Similar to most of the sampled annual reports, all items within the '*future-related information*' category remained undisclosed in the city council annual reports over the three-year period. The other four categories, the '*overview and operational*', '*non-financial performance*', '*balance sheet*' and '*financial information outside financial statements*', were poorly reported. In respect of the '*overview and operational*', '*non-financial performance*' and '*financial information outside financial statements*' categories, each scored below the category's overall average score over the three-year period. While most of the annual reports over the period received a score of more than 15 percent for the '*non-financial performance*' category and more than 40 percent for the '*overview and operational*' category, the council received the lowest score of 6 percent for the '*non-financial performance*'

category. The '*financial information outside financial statements*' and '*overview and operational*' categories scored only 28 percent and 31 percent respectively. Only three out of sixteen items within the '*non-financial performance*' category and half of the total items within the '*overview and operational*' category were disclosed although all items in both categories were regarded by the expert panel as 'very important' and 'quite important' for disclosure. Unlike the other local authorities, no disclosure of the '*statement of objectives*' was made within the '*overview and operational*' category in the annual reports of the city council over the three year period. These low scores highlight the city council's weakness in the disclosure in these areas as compared to the other local authorities.

The population of the municipal council that received the highest final annual report score for the extent and quality of disclosure was 139,000<sup>39</sup> and the revenue was MYR40 million in 2005. In the same year, the city council that received the lowest final score for extent and quality of disclosure had a revenue of MYR124 million with a population of 750,000.

As discussed in Chapter Two, a city council is larger than a municipal council in terms of its population and annual revenue. Previous studies have recognised that size (either represented by number of population or revenue) is positively related to the level of disclosure (for example, Buzby, 1975; Ryan et al, 2002b; Taylor & Rosair, 2000; Singhvi & Desai, 1975). However, in the current research, the highest disclosure score over the three year period was that of a smaller local authority and the lowest score was that of a larger local authority. In fact, the average final annual report score for extent and quality of disclosure of all the annual reports of municipal councils over the three-year period is slightly higher (37.8 percent) than the average score of all city council annual reports (34.3 percent). Table 9.7 presents the annual report score of each municipal and city council and shows that the average score of all municipal councils in each of the three years is higher than that of city councils across the same period. However, the test of significant difference detected no significant difference in mean score between annual reports of municipal and city councils ( $t = 1.932$ ;  $p = 0.063$ )<sup>40</sup>

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<sup>39</sup> Prior to June 2008, to be classified as a municipal council, the population should be more than 100,000. However, as at 3<sup>rd</sup> June 2008, this has been increased to more than 150,000 (source: the Ministry of Housing and Local Government, [www.kpkt.gov.my](http://www.kpkt.gov.my) )

<sup>40</sup> Given the small sample size over the three year period (21 annual reports of municipal councils and 12 annual reports of city councils), the results are acknowledged as being limited in the conclusions that can be drawn.

indicating that size of local authority in terms of annual revenue and population could not be associated with the local authority annual report score for extent and quality of disclosure.

**Table 9.7: Annual Report Score of Each Local Authority in 2003, 2004 and 2005**

Local Authority	Type of Local Authority	Annual Report Final Score		
		2003	2004	2005
LA 1	City council	35.4	31.4	32.6
LA 7	City council	37.7	38.4	39.5
LA 8	City council	35.2	36.5	44.2
LA 9	City council	27.0	27.0	27.0
<i>Average final score of city council</i>		<i>33.8</i>	<i>33.3</i>	<i>35.8</i>
LA 2	Municipal council	41.8	45.3	45.3
LA 3	Municipal council	33.1	n/a	35.1
LA 4	Municipal council	n/a	n/a	30.9
LA 5	Municipal council	36.2	36.9	41.3
LA 6	Municipal council	n/a	36.9	36.9
LA 10	Municipal council	36.2	36.2	39.9
LA 11	Municipal council	34.4	34.4	34.4
LA 12	Municipal council	35.5	36.2	n/a
LA 13	Municipal council	n/a	44.7	42.8
<i>Average final score of municipal council</i>		<i>36.2</i>	<i>38.7</i>	<i>38.3</i>

## 9.5 DISCUSSION

Overall, the results showed that the local authority annual reports from 2003 to 2005 provided inadequate disclosure for accountability purposes. Although there was a slight incremental change across the three years, the final scores during the period, from 27.0 percent to 45.3 percent, indicate that the reports were not comprehensive (were lacking in details of disclosure) and did not fully meet the expectations of stakeholders<sup>41</sup>. Accordingly, the disclosure of the reports was of limited extent and poor quality.

The extent and quality of financial information disclosure was found to be better than that of non-financial information, with the strongest results being the items in the financial statements. The non-disclosure of detailed information regarding '*revenue and expenditure according to services provided*' and detailed classification of fixed assets occurred because the financial statements were prepared by the local authorities with

<sup>41</sup> Given the experts' expectations were identified in 2007, whereas the annual reports that were used in content analysis were those of 2003 -2005, the conclusions drawn from the comparison between the disclosure expectations and the actual level of disclosure are limited.

reference to the Financial Reporting Standards (FRS) of Malaysia, which are widely applied by the local authorities as guidelines in the preparation and presentation of their annual reports<sup>42</sup>. The FRS only requires revenue and expenditure to be disclosed according to their sources. In regards to fixed assets, the FRS requires a disclosure of fixed assets that are classified into 'property, plant and equipment'. This implies that the extent of disclosure of revenue, expenditure and fixed assets in 2003, 2004 and 2005 was 'sufficient' in terms of official requirements. Detailed information about the revenue and expenditure disclosed in accordance with their sources and classification of fixed assets into various types such as community, infrastructure and operational assets is included in the disclosure index. In this research, Malaysian local authorities are suggested to disclose detailed financial information including information about revenue and expenditure and fixed assets as recommended by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This is because, the disclosure of financial information as recommended by the code has been recognised as meeting the standards of 'proper accounting practice' and achieving the financial accountability of local authorities (Coombs & Tayib, 2000).

Within the context of local government (or local authorities, with regards to the current research), the superior disclosure of financial information compared with non-financial information is consistent with the findings of Ryan et al.'s (2002b) study on the Queensland local government and Tooley & Guthrie's 2007 study of the New Zealand school sector. But whereas Ryan et al. (2002b) found a weakness in the disclosure of financial ratios, the current research found absolutely no disclosure of financial indicators such as financial ratios. This was consistent with the findings of Steccolini (2004) for Italian local governments. Other financial information that did not meet the level of disclosure expected by the expert panel is that of '*actual to budget comparison*'. This finding contradicts the results of Ryan et al. (2002b) who found strong disclosure of the item. Unlike in Malaysia, there has been legislation put in place in Queensland that requires the item to be reported. This, according to Ryan et al. (2002b), probably contributed to the strong disclosure of the item.

Further, the results are consistent with Ryan et al. (2002b), Steccolini (2004) and Lee (2008), who all found that the disclosure of non-financial information, including the

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<sup>42</sup> The FRS along with the Treasury Department's circular issued for statutory bodies are used as accounting and reporting guidelines as no statutory regulation or standard has been issued specifically for local authorities (Othman, 2001).



disclosure of service performance information, was weak. Categories that need the most attention and improvement in relation to disclosure are the categories of '*future-related information*' and '*non-financial performance*'. The experts perceived the '*future-related information*' items as being 'very important' and 'quite important' (scales of 4 and 3 respectively) but all of the items within this category scored below 1 point across the three years. This significant gap needs to be addressed since, as Farneti and Bestebreur (2004) emphasised, the external reporting of information about future intentions along with information about current responsibilities is essential in enabling stakeholders to engage in the ongoing monitoring and evaluation of goals. Thus, the information needs to be communicated to stakeholders in order to ensure effective rendering of accountability.

Within the '*non-financial performance*' category, the weak disclosure of performance measures, especially measures related to efficiency and effectiveness was consistent with a number of previous studies (for example, Boyne & Law, 1991; Lee, 2008; Mucciarone & Neilson, 2006; Nichol & Taylor, 2001). In addition to efficiency and effectiveness measures, Nichol and Taylor (2001) examined disclosure of other performance measures – inputs, outputs, results, and economy – in the annual accounts of the Malaysian government and its ministries and other selected public sector entities for the 1985 to 1995 period. Overall, the study concluded that the disclosure of performance measures over the period of the study was seriously lacking. The current research extends the analysis to additional performance measures - customer satisfaction and productivity measures. The results of the research imply that until 2005, there was no significant improvement in the disclosure of performance measures, at least in the case of local authorities. This suggests that the disclosure of performance measures other than input and output measures should be given serious attention by local authorities, as this information is useful for accountability purposes (Boyne et al., 2002).

In addition to performance measures, the disclosure of other information items in the '*non-financial performance*' category, such as information related to objectives of services, performance targets and achievement, also needs serious attention. This information is important for the discharge of wider accountability. McCandless (1993) argued that the information about objectives that specifies what outputs and outcomes a public sector entity intends to achieve was the primary requirement for managerial accountability reporting as the information clarifies the management's direction and acts

as a basis from which to hold management accountable. McCandless also suggested that the disclosure of performance achievement with reference to objectives and targets was important for the discharge of managerial accountability. The non-financial performance information that relates to targets and level of achievement reflects a public sector entity's service performance information and the reporting of this information is a product of performance-based accountability (Wei et al., 2008). The weak disclosure of non-financial information, and especially information related to service performance, probably occurred because, to date, performance audits conducted by the National Audit Department have not comprehensively covered all services or programmes of public sector entities. The performance audits are very selective, focusing only on high impact programmes and projects (Buang, 2008).

Despite the recognition of the importance to stakeholders of a narrative role of annual reports (Flack & Ryan, 2004; Lee, 2008), the disclosure of non-financial and narrative-type information, such as overviews about environmental management, internal controls, employee well-being, challenges and factors that influenced overall performance, is currently inadequate (the non-financial and narrative-type information in the research can be seen as being within the category of *'overview and operational'*, *'non-financial performance'*, and *'future-related information'*). The limited disclosure relating to aspects of employee well-being and internal controls is consistent with the findings of Ryan et al. (2002b). However, the weak disclosure of *'environmental management'* is inconsistent with the results of Ryan et al. (2002b) which indicated that the disclosure of this item was one of the strong disclosures. This area should also be given serious attention as the role of local government/authority management in environmental activities such as waste management is significant (Ryan, et al. 2002b) and the impact of such activities on the community's quality of living needs to be addressed by local authorities. The reporting of such information can further strengthen the wider accountability function (ACCA, 2006). In Malaysia, environmental issues are receiving more attention from higher authorities. Environmental audits on the activities or programmes of public sector entities, including local authorities, have been carried out by the National Audit Department (Buang, 2008) which covers aspects of waste disposal, management of eco-tourism and recreational projects and forest management. From the analysis of local authority annual reports, it was found however, that there are local authorities that have set up a specific department to monitor the environmental activities in their locality and to ensure any activities/programmes of the authorities

comply with the Environmental Quality Act and are consistent with the Environmental Management Guidelines issued by the National Audit Department. This indicates that concern for the environment is increasing and, therefore, it is expected that disclosures on environmental information will improve in the future.

Information about '*internal control*' which includes internal audits and risk management (along with organisation structure) has been recognised as a key component that constitutes local government accountability (CIPFA, 2000; McCandless, 1993; Ryan & Ng, 2000). Although it did not meet the experts' expectations, the level of disclosure of '*organisation structure*' in the local authority annual reports was better than that of '*internal control*' information. The disclosure of the quality of a public sector entity's internal control can be related to compliance reporting (McCandless, 1993). Therefore, the weak disclosure of internal control information may have an impact on fiduciary or financial accountability.

As mentioned in Chapter Five, the public accountability framework adopted for this research is based on the premise that more comprehensive information that extends the scope of disclosure traditionally reported in financial statements should be reported for the discharge of wider accountability. This includes both financial and non-financial information about conditions, performance and service (Coy & Dixon, 2004; Tooley & Guthrie, 2007). The appropriate medium for the discharge of wider accountability to a broad range of stakeholders is annual reports (Coy et al. 2001). The reporting of information that meets specific information needs is associated with the concept of the 'account', which is an essential element of performance accountability (Lee, 2008). In addition, within the public accountability approach to annual reporting, this research recognises the information expectations of a broad range of stakeholders. According to Coy et al. (2001), annual reports are of great value if they provide a range of information which "enables all stakeholders to obtain a comprehensive understanding of [an entity's] objectives and performance in financial and non-financial terms" (p.14). Nevertheless, the results of the research have shown the scores for extent and quality of most information categories and the entire reports are relatively low.

The results have also shown that the majority of the information items have not been adequately disclosed. Although the expert panel regarded all the eighty-two evaluated items as 'very important' and 'quite important' for disclosure, twenty-two items (27

percent) were not disclosed in all annual reports over the period. The items that were disclosed lacked detailed information. Over the three-year period, only a total of twenty items met the expert panel's disclosure expectations. For the remaining disclosed items, there is a substantial information gap between what is expected for disclosure in local authority annual reports and its actual disclosure level. Disclosure levels in an entity's annual reports indicate the entity's general level of accountability (Lang & Lundholm, 1993) and the extent to which accountability is discharged through reporting can be determined by comparing the stakeholder expectations and the contents of the reports (Flack & Ryan, 2004; Hooks et al., 2002b; Kluvers, 2001). Given a substantial information gap between the actual level of disclosure in the annual reports of local authorities and the experts' expectations (also representative of the expectations of the broad group of stakeholders), the accountability of the local authorities being discharged through the local authority annual reporting is considered to be limited and compromised (Kluvers, 2001).

The superior disclosure of financial statement items compared to non-financial information items, especially those related to service performance, indicates that financial accountability is emphasised more than performance accountability of service. The large gap between expected and actual disclosure of service performance information suggests that the discharge of performance accountability of the services provided is still limited, which may undermine the overall accountability of local authorities.

The results also indicate the score for extent and quality of disclosure of a smaller local authority (in terms of its population and annual revenue) is better than that of a larger local authority. This is inconsistent with the findings of prior studies in that size is positively related to level of disclosure. Although a larger local authority is considered to have sufficient financial resources to provide higher level of disclosure, this is not evidenced in the current research. The highest annual report score was received by a municipal council and the lowest score was allocated to a city council (which is larger than a municipal council). The statistical test gave an indication that the level of disclosure of Malaysian local authority annual reports was not determined by the size of the local authority. The low score for extent and quality of disclosure are possibly explained by the absence of statutory requirements for the preparation and content of annual reports including service performance reports specific to local authorities, as well

as by a lack of awareness of the importance of external reporting of local authorities' performance from the management of local authorities. These reasons were mentioned by some of the panellists during the Delphi exercise. Thus, despite the fact that a relatively large local authority has sufficient financial support to issue comprehensive annual reports which cover both financial and non-financial performance information, since there is no specific statutory requirement for external comprehensive performance reporting and there is also a general lack of awareness on the importance of performance reporting, the result is a relatively low level of disclosure.

Overall, although annual reports have been recognised in the literature as being a primary medium for the discharge of wider accountability, the results of this research imply that, in the context of Malaysian local authorities, the role of performance reporting within annual reports is still limited. Its potential for promoting public accountability as aspired to under NPM will not be realised unless significant improvements in performance reporting are made.

## **9.6 CHAPTER SUMMARY**

This chapter has reported the results obtained from the analysis of the contents of annual reports. The results have provided answers to the last three research questions stated in the introductory section of this chapter. First, the results suggest that the extent and quality of disclosure of information within the annual reports required by the stakeholders for assessing the performance of local authorities are considered low and in need of improvement, especially in terms of non-financial information related to service performance. Second, the results show that the majority of items disclosed in annual reports do not meet stakeholder expectations. Finally, it was found that, through local authority annual reporting, financial accountability is given more emphasis than performance-based accountability.

With the results reported in the previous two chapters and in this chapter, the eight objectives outlined in the introductory chapter of the thesis have been achieved. The conclusion of the results obtained throughout the entire research process is summarised in the next and final chapter of the thesis.

## **CHAPTER TEN**

### **SUMMARY, RECOMMENDATIONS AND CONCLUSION**

#### **10.1 INTRODUCTION**

Chapter One of the thesis outlined the background of the research including the rationale and objectives. The chapter included discussion of the New Public Management (NPM)-based public sector reforms in Malaysia with particular reference to local authorities, which provided the context for the research. The background of Malaysian local authorities, including their structure and relationships with state and federal governments, was discussed in Chapter Two. The research applied a middle-range thinking (MRT) perspective which was outlined in Chapter Three. The MRT perspective acknowledges the existence of reality but the generalisation of the reality can only be used to create a 'skeletal' or incomplete theory. Empirical details are needed to enrich the theory to make it meaningful. Empirical details in this research involved investigations into the performance reporting practices and accountability of Malaysian local authorities. The theoretical framework of accountability that directs the empirical investigations was discussed in Chapter Four. Following the discussion of accountability, a review of prior studies in relation to performance reporting and annual report disclosure for the discharge of accountability was provided in Chapter Five. Chapter Six discussed the research methods involved in the empirical investigations. The results of the empirical investigations were reported and discussed in Chapters Seven, Eight and Nine.

This final chapter concludes the thesis by providing a summary of the research and its significance in Section 10.2 and a summary of major results in Section 10.3. Based on the results, a number of recommendations for practice are discussed in Section 10.4. Section 10.5 discusses the research limitations and Section 10.6 provides directions for future research. Finally, Section 10.7 provides an overall conclusion to the research.

## 10.2 SUMMARY AND SIGNIFICANCE OF THE RESEARCH

Internationally, the performance of local (and national) authorities in the delivery of public services has, over recent decades, become an important issue for governments of varying political persuasions. Enhancing performance accountability has often been discussed in the context of NPM which calls for improved public accountability of governments (Broadbent & Guthrie, 1992; Mulgan & Uhr, 2000) and for public sector managers to be held accountable for both their managerial performance and financial management of entrusted resources (Parker & Guthrie 1993; Hood, 1995). The increasing demand for government entities such as local authorities to be accountable has created debate on various aspects of accountability including how to render sufficient and relevant performance information (Guthrie & Parker, 1998; Mayston, 1985; Pollitt & Bourckaert, 2000; Stewart, 1984). Often, the demands for greater accountability for performance come from outside the immediate confines of government and reflect the concerns of a broader stakeholder interest. Previous research has provided many contributions that analyse the reasons for holding public entities to account for their performance and that inform the underlying premise of the current research.

The current research investigated the views of the stakeholders of Malaysian local authorities regarding the accountability of the authorities, the expectations of stakeholders on information necessary for assessing and monitoring the performance of the authorities and perceptions of the importance of the information for disclosure. This research was carried out within the context of NPM, particularly on the issues of public and performance-based accountability. For this purpose, the research outlined eight objectives:

1. To explore the concept of accountability from the perspective of Malaysian stakeholders and the stakeholders' understanding of their relationship with local authorities.
2. To identify the type of information that a broad group of stakeholder expect to enable them to assess and monitor the performance of Malaysian local authorities.
3. To identify the perceptions of stakeholders of the importance of information items for disclosure.

4. To identify experts' perceptions of and agreement on the information necessary for assessing and monitoring the performance of Malaysian local authorities and the importance of such information for disclosure.
5. To develop a special purpose disclosure index to assess the extent and quality of performance information currently published in annual reports of Malaysian local authorities.
6. To evaluate the extent and quality of disclosure of performance reporting within the annual reports by applying the developed disclosure index.
7. To ascertain whether the informational and disclosure expectations of stakeholders are being met.
8. To ascertain the extent to which accountability is being discharged through performance reporting.

In general, the research responded to a challenge by Pollitt (2006) for empirical public accountability research to be undertaken within the context of developing countries. Specifically, it responded to the call by Steccolini (2004) to address issues of how an annual report can be used as a vehicle to discharge organisational accountability and the identification by previous researchers of the need for research to improve the quality of performance reporting as an accountability mechanism (Carlin & Guthrie, 2001; Guthrie & Parker, 1998; Lee, 2008; Pollitt & Bouckaert, 2000; Walker, 1995). However, the literature found that the types of performance information required often varied from one context to another (Lee, 2008). The current research addressed this issue by identifying the relevant information for assessing and monitoring the performance of local authorities and the importance of such information for disclosure from a stakeholder perspective.

Within the public accountability approach to annual reporting (Coy et al., 2001), this research acknowledges the importance of meeting the informational expectations and preferences of a broad range of stakeholders. In this research, the stakeholders' informational expectations were determined through a number of steps. At the initial stage of the research process, a review of literature was undertaken. The information needs of stakeholders or annual reports users, as suggested by prior studies, along with the information recommended by professional bodies and suggested by practitioners and academicians, were identified. With this selected information, a draft or 'skeletal' framework of report content was developed. This is consistent with Laughlin's (1995a,



1995b) MRT approach to research that considers prior generalisation to enable the development of, at most, a skeletal theory and that empirical details are needed to complete the theory and make it meaningful. The empirical details in this research involved a questionnaire survey, a Delphi exercise and a content analysis of annual reports. In the questionnaire survey that was carried out at the first stage of empirical investigation, the identified information was exposed to a broad range of stakeholders for them to confirm the information necessary for assessing and monitoring the performance of local authorities and the importance of such information for disclosure. The questionnaire survey was also used to examine the stakeholders' views on the accountability of local authorities. Following the questionnaire survey, a Delphi exercise that involved expert opinion-seeking and consensus building was conducted. At this stage, the information and disclosure importance identified by the broad group of stakeholders was reconciled and validated. The perceptions of expert stakeholders of information necessary for assessing and monitoring the performance of local authorities and the disclosure importance of such information were also identified. Here, the application of MRT acknowledges the views, judgement and knowledge of the researcher and the Delphi panel members during the questionnaire iteration process as subjective input which consequently forms subjective results. At the end of this stage, the experts' agreement on the results – the information and its disclosure importance – was organised into a disclosure index. At the final stage of the empirical investigation, the index was then applied to annual reports of local authorities to score extent and quality of the information reported. In order for the final results to be considered as a valid assessment of annual reporting, two independent evaluations of each annual report were carried out.

Subsequently, the question of whether the actual reporting meets the informational expectations of stakeholders was addressed and the extent to which accountability was being discharged through performance reporting was ascertained. This was achieved by comparing expert stakeholders' expected information disclosure with the actual disclosure of the annual reports. Consistent with the perspective of MRT, the results obtained from the empirical investigations have enriched the skeletal theory of accountability and performance-based reporting. In the current research, the skeletal theory that consists of typologies of accountability and outlines items for disclosure was reinforced by the empirical evidence of levels of accountability and accountability relationships, the stakeholders or users' information needs and the contents of annual

performance reporting for accountability purposes within the context of a developing country.

In particular, the research provided empirical evidence of the way in which accountability is defined and applied within a specific context, namely that of Malaysian local authorities, from a stakeholder perspective. It also provided empirical evidence of the need for local authorities to communicate broader information about their performance in order to improve accountability as inspired by the notion of NPM. For this purpose and to be consistent with prior studies (for example, Coy & Dixon, 2004; Hooks et al., 2002b; Ryan et al., 2002b; Steccolini, 2004; Tooley & Guthrie, 2007), this research recognises that annual reports are a primary vehicle for discharging accountability obligations. Reporting of comprehensive information including both financial and non-financial performance information through the medium of annual reports is promoted in this research as being necessary for the discharge of public and performance-based accountability.

The results of this research enable a stronger understanding of how NPM has influenced and can potentially influence performance-based accountability of local government or authorities in a developing country, by providing empirical evidence on how it has been operationalised in the Malaysian local authority context, particularly in relation to performance accountability.

The results of the research should be of interest to report preparers, regulators and legislators as an aid to improving accountability reporting in the future. The kinds of information and disclosure required by the stakeholders identified in this research can assist civil servants to meet stakeholder reporting expectations and reduce the information gap between existing and expected disclosure. This could subsequently improve accountability of an entity for its performance to a wide range of stakeholders, particularly in terms of performance and public accountability.

### **10.3 SUMMARY OF MAJOR RESULTS**

In general, the results show a strong interest amongst stakeholders for greater accountability of Malaysian local authorities. However, a standard definition and scope of accountability has not emerged. The results of the research also indicate that the need to give an account has been properly recognised by the stakeholders and that the emphasis on performance within the context of NPM is rightly placed. However, the results highlight the fact that there is inadequate disclosure of performance information. In particular, the results show that the extent and quality of annual reports of Malaysian local authorities is relatively low in that the information disclosed is not sufficient for the assessment and monitoring of the performance of such authorities.

Specifically, the following sub-sections summarise the major results in accordance with the research objectives.

#### **10.3.1 Stakeholders' Understanding of 'Accountability' with Regards to Local Authorities, and Their Perceptions of the Information Necessary for Assessing and Monitoring the Performance of Malaysian Local Authorities and the Disclosure Importance of Such Information**

In accordance with the first three research objectives, the results, as reported in Chapter Seven, in general show that the stakeholders of Malaysian local authorities hold firm views of accountability relationships and scope. The stakeholders consider that generally accountability involves rendering an account to all stakeholders in respect of financial and managerial accountability.

The results also indicate the stakeholders' expectations on the information necessary for the purpose of assessing and monitoring the performance of local authorities. The expectations include not only financial information but also non-financial information. However, there is diversity of opinion amongst the broad range of stakeholders as to how important each type of information is for disclosure in annual reports of local authorities.

### **10.3.2 Experts' Perceptions of and Agreement on the Information Necessary for Assessing and Monitoring the Performance of Malaysian Local Authorities and the Importance of Such Information for Disclosure**

In respect of the fourth research objective, the results, as reported in Chapter Eight, highlight an agreement amongst the expert stakeholders on the information relevant for assessing and monitoring the performance of local authorities and the importance of such information for disclosure in the authorities' annual reports.

The experts confirmed the information expected by the broad range of stakeholders and identified additional information necessary for assessing and monitoring the performance of local authorities and the weightings for importance of such information items to be disclosed in the annual reports of local authorities. The agreement on the information and its disclosure importance were reached at the third round of the Delphi exercise. The experts considered both financial and non-financial information important for disclosure but financial information was perceived as more important. The information and its disclosure importance agreed to by the experts were used in the development of the disclosure index.

### **10.3.3 Development of Disclosure Index**

The fifth research objective was to develop a special purpose disclosure index. The information items and their disclosure importance established through the Delphi exercise, along with the disclosure quality criteria – pre-determined based on prior studies, professional bodies' recommendations and relevant local statutory requirements – were organised into a disclosure index. The index was applied to Malaysian local authorities' annual reports of 2003 to 2005 to determine scores for extent and quality of disclosure of the information relevant to assess and monitor the performance of the local authorities.

#### **10.3.4 Extent and Quality of Disclosure of Performance Reporting within the Annual Reports of Malaysian Local Authorities**

In respect of the sixth research objective, the results, as reported in Chapter Nine, show that overall, the scores for the extent and quality of annual reports of local authorities are considered to be low. The expert stakeholders perceived a large variety of information as being important; however, the majority of such information was under-disclosed in the annual reports of local authorities. Much of the non-financial information, in particular future-related information, non-financial performance information and information related to the organisation and its operations, was under-reported.

#### **10.3.5 Discharge of Accountability Through Annual Performance Reporting**

In Chapter Nine, the reported results are also related to the final two research objectives. The results indicate the existence of an information gap between the actual and the expected level of disclosure. The gap suggests that the discharge of accountability of the local authorities via annual performance reporting needs more attention from higher authorities and policy makers and could be improved in the future.

### **10.4 RECOMMENDATIONS FOR PRACTICE**

Although a number of current statutory requirements or authorities are supportive of the public's right to information in relation to Malaysian local authorities, the research recommends the establishment of a more formal accountability relationship between Malaysian local authorities and tax/rate payers and the public. This is because local authorities accept and utilise a large portion of financial resources in terms of assessment taxes and rates from the public. Measures of a more formal accountability relationship need to be adopted if accountability of the local authorities for performance to all their stakeholders is to be improved. For example, a provision to require local authorities to prepare and externally issue a comprehensive annual report which includes financial and service performance reports could be included in the Local Government Act 1976 (Act 171). To date, Section 54 of the act only requires the publication of annual reports; it does not provide any requirement for local authorities to provide the reports to the public and does not clearly state the required content of the

reports. This lack of guidelines on the suggested content of annual reports can constitute a barrier to the improvement of reporting practice (Jose Luis, 2002). For the purpose of improving reporting practice and the discharge of accountability obligations, the current research recommends that local authorities need to be provided with specific guidelines on how to report on their performance, including both financial and service performance. To this end, annual reporting guidelines issued for statutory bodies could be developed and extended to local authorities. In this respect, the disclosure index developed by stakeholders and experts for this research could provide a model of best practice.

As discussed earlier in this chapter, the results generally showed that the disclosure of a number of items were far below the stakeholders' disclosure expectations. To improve the extent and quality of future annual reports and subsequently the discharge of wider accountability, there are various categories of information on which local authorities should focus their attention. These categories include '*future-related information*', '*non-financial performance*' and '*overview and operational information*'. To provide information that meets the disclosure expectations of stakeholders and to improve the accountability of local authorities through reporting as a result, the disclosure of the following items in the three categories is recommended:

#### ***Future-related information***

- Future plans should be outlined with reference to major services.
- A specification of future performance targets with a description of the assessment of risks to be faced towards the achievement of the targets. Future performance targets with a description of the assessment of risks to be faced towards the achievement of the targets should be specified.
- Plan/s about future capital improvement should be specified.

#### ***Non-financial performance information***

- Performance measures
  - Performance measures related to efficiency, effectiveness, customer satisfaction and productivity, in addition to input and output measures, should be included.

- Each measure should provide a basis for assessing the results for key services or programmes. An analysis of performance targets achievement by service provided and a comparison between performance achievement and objectives should be reported.
- Performance measures should reflect the objectives of the particular service provided.
- Some indication of benchmarking, such as with a similar service provided by other local authorities, should be provided where relevant.
- Performance targets
  - The targets should be described according to service.
  - Reference to objectives for key programmes/activities should be included.
  - The capability of the relevant unit or department to meet the targets should be explained.
  - Comparison should be made between actual and target achievement.
  - Comparison should be made according to service.
  - Factors that have had a significant effect on achievement should be described.
  - Suggestions for performance improvement where relevant should be included.
- Government grants
  - The use of government grants should be specified.
- Performance of contractors responsible for providing contracted services
  - The contractors involved and their performance should be disclosed.
- Improvement programme of service delivery system
  - A programme that has been developed to improve the service delivery should be described.
- Goals and objectives of services
  - A clear statement of the goals/objectives for each service undertaken should be disclosed.

### ***Overview and operational information***

- Role and responsibility of councillors
  - The role and responsibility of councillors should be specified.
- Scope of authority of the local authority and other relevant agencies
  - The scope of authority of the local authority and other relevant agencies in the locality should be made clear to the stakeholders, especially service recipients.

- Environmental management
  - The local authority's environmental policy should be included.
  - Reference to statutory requirement/s should be made.
  - Environmental protection programmes that have been carried out should be outlined.
- Occupational health and safety
  - Programme/s for occupational health and safety that has/have been carried out should be described.
  - The safety record with previous years' comparison should be included.
- Training programmes for staff
  - Staff training programmes that have been carried out should be described.
  - A description of the outputs and outcomes of the programmes should be included.
- Factors that have influenced the current status of the overall performance achievement
  - The factors should be described.
- Auditor general department's (the National Audit Department) rating of financial management
  - It was agreed by the expert members that this item should be disclosed in the annual reports of local authorities as the rating may indicate the accountability of local authorities for a proper use of financial resources. Arguably, the disclosure of this can help comparison of financial performance between local authorities with the local authority that scores the highest rating being used as a potential benchmark.

In addition to non-financial information, some aspects of financial information disclosure could also be improved. The areas of financial information that should be given attention include the following:

### ***Financial***

- Revenue and expenditure

In addition to the disclosure of revenue according to its source and expenditure according to its nature or function, the disclosure of revenue and expenditure according to relevant services rendered should be disclosed. The additional disclosure could be included in the notes to the accounts.



- Fixed assets

The disclosure of fixed assets should be broken down according to their nature such as whether they are operational, community or infrastructure assets. Their market values should also be included. Detailed information could be disclosed in the notes to the accounts.

Finally, the research recommends that accessibility to the annual reports be given attention, especially with regard to broad stakeholder groups, including the public and other external stakeholders who have limited access to an organisation's performance information. In the public accounting environment, accountability involves not only reporting of comprehensive information but also ensuring maximum accessibility of reports (Coy et al., 2001). As the results of the current research indicated poor accessibility to, and distribution of, annual reports of local authorities' financial and non-financial performance information, it is recommended that external publication and distribution of annual reports be made mandatory. An economic and effective way of making this possible is through the electronic publication of the reports on local authority websites. Alternatively, summary facts and figures of the performance of local authorities could be published and distributed in pamphlet form with a notification that the full annual report is available on request. In addition, a platform of meetings with the public and other stakeholders could also be used to communicate performance information.

## **10.5 RESEARCH LIMITATIONS**

Several limitations are identified in the current research.

1. The examination of performance reporting is limited to the reporting provided within the annual reports of local authorities. Other mechanisms of reporting performance such as budget papers and corporate plans have not been considered. The discharge of accountability through these other mechanisms may provide a different perspective on the practice of performance reporting by local authorities.

2. The use of a disclosure index involves an element of subjectivity and subsequent problems of validity and reliability, specifically during the process of selecting the index items, weighting the disclosure items for their importance and the scoring of the reports. The element of subjectivity may limit the conclusions that can be drawn. However, by incorporating various sources in finalising the index items (from prior literature, a questionnaire survey and a Delphi exercise), the subjectivity element is minimised. The validity and reliability problems are addressed by involving another evaluator in the scoring process.
3. The sample size of thirty-three annual reports over the three year period - 2003 to 2005 was limited. Twelve annual reports in 2005 was the maximum number able to be obtained through personal contacts and requests during the data collection period (August to November 2006). Therefore caution needs to be exercised in the generalisation of the findings of the content analysis of the annual reports.
4. The sample size of stakeholder groups, namely the groups of creditors (12), councillors (11) and state government (8), involved in the questionnaire survey was small. This limited the conclusions that were able to be drawn from the findings and disallowed the findings to be generalised.
5. The findings and discussion in relation to accountability and the disclosure of information items are limited to the propositions put forward in the questionnaire. However, this limitation is reconciled and validated in the Delphi exercise which involves an expert panel deciding on the final information necessary for assessing and monitoring the performance of local authorities and the information disclosure importance. Alternative research methods such as in-depth interviews would contribute more to our understanding of the accountability of the Malaysian public sector, particularly local authorities and the justifications for the current practices of performance reporting.
6. The actual level of disclosure has been related to annual reports of 2003, 2004 and 2005, whereas the expectations on information and disclosure of the experts were obtained through the Delphi exercise in 2007. Therefore, the conclusions that have been drawn from the results of the comparison between the practice or actual level

of disclosure in annual reports of local authorities and the expected level of disclosure are limited.

## **10.6 DIRECTIONS FOR FUTURE RESEARCH**

The results and limitations of this research provide general directions for future research on public sector accountability and accountability reporting.

This research is limited to the reporting provided within the annual reports of local authorities. Future research may include other reporting media such as budget papers and corporate plans, in order to address the discharge of accountability through reporting more comprehensively.

The sample size of each stakeholder group and of annual reports in future research should be larger so that greater generalisation of findings can be made. In addition, a parametric statistical test of significant differences in the perceptions between each stakeholder group can be carried out in order to provide robust conclusions from the findings.

Future research may also involve an investigation into the reasons behind the low quality of annual report disclosure of local authorities. In particular, the questions of why some local authorities have more comprehensive disclosure than others and why the disclosure of financial information is more extensive than non-financial information, need to be addressed. In-depth interviews with report preparers and regulators may be conducted for this purpose.

The current research involved a content analysis of the annual reports of 2003, 2004 and 2005 and the level of disclosure in the annual reports of those particular years was compared with the stakeholder disclosure expectations that were gathered in 2007. Since a greater awareness of issues relating to performance and accountability (as the results of the implementation of Key Performance Indicators and the Accountability Index

System<sup>43</sup> in the public sector organisations including local authorities) may be reflected in the disclosure expectations, future research should examine disclosure in more recent years' annual reports. This is for the actual level of disclosure to be more comparable with stakeholder informational and disclosure expectations.

In Laughlin's (1995a) MRT approach to research, the final stage involves formulation of a strategy or action plan including a reporting policy that conforms to stakeholders' preferences (Van Peurse, 1999). Future research may apply the same method of data collection via the Delphi exercise, but may also involve individuals or parties who have the power to change policy as Delphi panel members, in order to develop a reporting policy and standardise the reporting practice. The results of the current research have provided the impetus to initiate such an action plan.

The same research methods may be applied in future research that involves different public sector entities and in other developing countries. Different contexts and operations of accountability may provide different results. This will contribute to a better understanding of the knowledge of NPM, especially in relation to performance accountability and especially in developing countries.

In addition, as an extension to the current research, annual reports of Malaysian local authorities could be contrasted with those of local authorities in other developing countries as well as those in developed countries. An examination of the differences and similarities of the content and format could be carried out.

Last but not least, the consequences of quality report disclosure may be investigated. Could higher quality disclosure of annual reports of local authorities be associated with better provision of services and performance? Better provision of services may be based on the perceptions of the public as tax/rate payers and consumers. Performance assessment of local authorities could be based on aspects of efficiency, effectiveness and economics. In response to the questions of how and to what extent specific NPM reforms have actually changed public sector performance (Groot & Budding, 2008), this kind of research may provide additional insights.

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<sup>43</sup> The Accountability Index System is required to be implemented in public sector organisations by the National Audit Department commencing 2007. With this system, public sector organisations including local authorities are assessed on their financial management and accountability.

## 10.7 CONCLUSION

The results of the research highlight the fact that accountability is a complex and difficult to define concept, yet, they also provide some insights that may assist in a greater understanding of accountability. It is suggested that in local authorities more formal lines of accountability are needed and that these would improve local authorities' credibility and contribute to an improvement in the performance management of Malaysian local authorities in particular, and of the Malaysian public sector as a whole. In respect of the key principles of NPM, local authorities would be able to effectively account for their economy, efficiency, appropriateness and accessibility of service provision and the adequacy of their internal controls.

The information requirements of the Malaysian local authorities' stakeholders appear to support the notion of NPM that emphasises the importance of financial and non-financial information in measuring and judging the performance of an organisation (Lee, 2008). The information includes four types of information preferred by users of annual reports as identified by Daniels and Daniels (1991) – information on compliance and about financial viability, operating results, efficiency and effectiveness. However, the diversity amongst stakeholders that was found in the research as to the information required and the varying perceptions of the importance of the information for disclosure supports the existence of multiple accountability relationships and various scopes of accountability in the public sector as recognised by the literature. In particular, the findings support the preferences for different types of information to be reported as suggested by Patton (1992), when accountability for different factors has occurred.

In addition, the research supports the view that annual reports are the primary medium to discharge accountability to a broad stakeholder group. It also supports the view that the disclosure of non-financial information provides an additional perspective from which to evaluate a public sector entity's performance. Financial information items especially that are disclosed within traditional financial statements can only be considered complementary items as they are necessary but not sufficient for monitoring and assessing the performance of an entity. The results also highlight the fact that the financial information is reported better than non-financial information. This implies that the annual reports of local authorities apply the 'report only' approach to accountability. Within the framework of accountability that regards explanation or justification as part

of accountability, it is necessary for the annual reports to include more information, such as explanatory narratives, in addition to financial reports (Patton, 1992). Accountability, it is argued, is in part discharged through the provision of comprehensive information (Hooks et al., 2002b), such as information about the condition, performance, activities and progress of the entity (Coy & Dixon, 2004). The inclusion of comprehensive information about a local authority's performance and its financial condition could also permit an evaluation of financial and non-financial commitments related to the provision of services (Jose Luis, 2002). The evaluation of such commitments forms a basis from which to judge the performance of local authorities. However, the result of the research that shows under-reporting of non-financial performance information is consistent with the findings of studies carried out in the United Kingdom, the United States, Australia and Italy (GASB-NAPA, 1997; Hyndman & Anderson, 1995; Lee, 2008; Ryan et al., 2002b; Steccolini, 2004).

Overall, the results indicate that the extent and quality of annual reports of Malaysian local authorities are relatively low. Within the theoretical framework of accountability, the low extent and quality of annual reports and the under-reporting of relevant information necessary for monitoring and assessing performance would impair the appropriate rendering of the 'account' necessary for accountability. This would be seen as undermining accountability, in particular the public and performance-based accountability as emphasised by NPM reform. As stated by Boyne and Law, "in the absence of wider performance data, the concept of accountability and indeed the whole democratic process is simply a sham" (1991, p.179).

Within the context of NPM, the shift from the discharge of financial or fiduciary accountability to the discharge of managerial accountability requires annual reporting by public sector entities such as local authorities to include both compliance reporting and performance reporting (Taylor & Pincus, 1999). However, the research results generally failed to support the framework of accountability within the context of NPM in linking performance information and reporting. The results consequently imply that the Malaysian government's NPM reform efforts, especially those regarding accountability and performance, have not been smoothly and comprehensively implemented by local authorities, particularly with respect to the discharge of accountability for performance of local authorities to the authorities' broad group of stakeholders. This reinforces the claim by previous researchers that reforms rarely produce the expected outcomes

(Guthrie & Parker, 1998; Pollitt & Bouckaert, 2000; Schick, 2001). The results also imply that the existing practice of discharging accountability through annual performance reporting needs revision, at least in the context of Malaysian local authorities. Perhaps with the growing awareness among higher authorities and local authority management of the importance of performance reporting and awareness from the public of their rights to be provided with performance reports, in the next few years, annual external performance reports will play a more significant role in the discharge of accountability as inspired by the NPM paradigm. With specific reference to Malaysian local authorities, there is still far to go before the NPM notion of performance-based accountability is fully achieved. In particular, the discharge of such accountability through external annual reporting needs greater attention. Annual reporting needs to be comprehensive and cover a broader accountability based on accountability by standards as well as accountability by judgement (Stewart, 1984). This will provide improved public accountability that is rooted in the belief that the public and other external stakeholders have the right to be provided with sufficient and reliable information that makes it possible for them to carry out debate and judgement on the performance of organisations such as Malaysian local authorities.

With the recommendations put forward earlier in this chapter, it is hoped that the practice of performance reporting by Malaysian local authorities and the discharge of their accountability obligations will be improved in the future. The research has provided initial data and strategies for the creation of such improvement.

In addition, the results of the research have provided enrichment to the knowledge and literature on accountability and accountability-based reporting in the context of NPM. The suggested future research could be carried out to further understand the system of public sector and accountability reporting within the context of NPM in developing countries and internationally.

## APPENDICES

### Appendix A: A Summary of Disclosure Index Studies (1997–2008)

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Banks et al.	1997	Canada	Public – university	Un-weighted & weighted <i>(for importance)</i>	26	Financial and non-financial information (entire annual reports)	Extent (quantity) and quality of disclosure	Modified Accountability Index – MAD index (Coy et al., 1993) that was based on literature and annual reports	MAD index (Coy et al., 1993) that was based on literature
Botosan	1997	US	Private	Weighted <i>(for disclosure quality)</i>	216	Voluntary information (within annual reports)	Extent and quality	Annual reports Professional bodies' recommendations Investors' information needs survey	Researcher's judgement
Inchausti	1997	Spain	Private	Un-weighted	50	Mandatory and voluntary information (entire annual reports)	Extent and quality of disclosure	Literature. Regulations.	n/a
Patton & Zalenka	1997	Czech Republic	Private	Un-weighted	66	Mandatory and voluntary information (entire annual reports)	Extent of disclosure	Regulations – the Securities Act	n/a
Craig & Diga	1998	5 ASEAN countries	Private	Un-weighted	530	Financial, social and non-financial information (within annual reports)	Extent, patent and nature of disclosure	Statutory framework – Accounting standards and government regulations	n/a



## Appendix A Cont..

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Owusu-Ansah	1998	Zimbabwe	Private	Un-weighted	214	Mandatory information (within annual reports)	Extent of disclosure	Regulations	n/a
Wallace et al.	1999	UK	Private	Un-weighted & weighted (for disclosure quality)	Not stated	Cash flow information (within annual reports)	Extent and quality of disclosure	Accounting standards Literature	Weighted according to relevance, reliability, and usefulness as perceived by financial analysts
Coombs & Tayib	2000	UK & Malaysia	Public – local government/ authority	Un-weighted		Financial statements information (financial reports)	Extent of disclosure		
Chen & Jaggi	2000	Hong Kong	Private	Un-weighted	142	Mandatory information (within annual reports)	Extent of disclosure		
Depoers	2000	France	Private	Un-weighted	65	Voluntary information (within annual reports)	Extent of disclosure	Annual reports. Practitioners' advice.	n/a
Ho & Wong	2001	Hong Kong	Private	Weighted (for importance)	35	Voluntary information (within annual reports)	Extent of disclosure	Literature. Annual reports. Practitioners' advice.	Weighted according to importance of each piece of information as attributed by analyst users (via survey)

**Appendix A Cont..**

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Laswad, Fisher and Oyelere	2001	New Zealand	Public – local authorities	Un-weighted	4 categories	Internet reporting of financial information	Type and extent of disclosure	Researcher's judgement	n/a
Williams	2001	UK	Private	Un-weighted	21	Intellectual capital information (within annual reports)	Extent of disclosure	Literature	n/a
Robb et al.	2001	Australia, Canada & US	Private	Weighted <i>(for the extension of disclosure)</i>	66	Non-financial information (within annual reports)	Extent of disclosure	List of non-financial information desired by users from AICPA committee database	Weighted according to the extension of disclosure
Haniffa & Cooke	2002	Malaysia	Private	Un-weighted	65	Voluntary information (within annual reports)	Extent of disclosure	Literature. Regulations.	n/a
Chau & Gray	2002	Hong Kong & Singapore	Private	Un-weighted	Approx. 110	Voluntary information (within annual reports)	Extent of disclosure	Meek et al.'s (1995). Regulations. International trends and standard reporting practice.	n/a

# Appendix A Cont..

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Ryan et al.	2002	Australia	Public – local government	Un-weighted & weighted <i>(for importance)</i>	22	Financial and non-financial information (entire annual reports)	Extent and quality of disclosure and accountability though reporting	MAD index (Coy et al., 1993). Best practice guidelines produced by independent bodies.	Weighted according to importance of each piece of information based on: Literature Statutory and accounting standard requirements Best practice recommendation Practitioner advice
Gordon et al.	2002	US	Public/ private – university & college	Un-weighted & weighted <i>(for importance)</i>	75	Financial and non-financial (SEA) information (entire annual reports)	Extent of disclosure	Engstrom's (1988) study	Engstrom's (1988) study
Hooks et al.	2002	New Zealand	Private & public (electricity)	Un-weighted & weighted <i>(for importance and quality criteria)</i>	67	Mandatory and voluntary information (entire annual reports)	Extent and quality of disclosure and accountability though reporting	Literature. Expert opinions.	Weighted according to importance of each piece of information as attributed by expert stakeholder groups Weighted according to quality criteria based on: Professional bodies annual reports model Researcher's knowledge

### Appendix A Cont..

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Marston	2003	Japan	Private	Un-weighted	10	Financial information (within annual reports)	Extent of disclosure	Marston & Leow's (1998) study	n/a
Vanstraelen et al.	2003	Belgium, Germany & Netherlands	Private	Weighted <i>(for the extension of disclosure)</i>	66	Non-financial information (within annual reports)	Extent of disclosure	Robb et al.'s (2001) study	Robb et al.'s (2001) study
Eng & Mak	2003	Singapore	Private	Un-weighted & weighted <i>(for importance)</i>	84	Voluntary information (within annual reports)	Extent of disclosure	Literature. Regulations.	Eng et al.'s (2001) study
Naser & Nuseibeh	2003	Saudi Arabia	Private	Un-weighted & weighted <i>(for importance)</i>	Approx: 27	Mandatory and voluntary information (entire annual reports)	Extent and quality of disclosure	Literature. Regulations.	Weighted according to importance of each piece of information as attributed by 7 user groups (via survey)
Prencipe	2004	Italy	Private	Un-weighted & weighted <i>(for importance)</i>	9 segment items	Voluntary information (within annual reports)	Extent and importance of disclosure	Accounting standards	Weighted according to importance of each piece of information as attributed by financial analysts (via survey)
Steccolini	2004	Italy	Public – local government	Un-weighted & weighted <i>(for the nature of disclosure)</i>	7 sections. No. of Items are unavailable	Financial and non-financial information (entire annual reports)	Extent and mix of information disclosure	Literature	Weighted according to clarity, comprehensiveness and comprehensibility of information

# Appendix A Cont..

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Makhija & Patton	2004	Czech Republic	Private	Un-weighted	66	Voluntary financial information (within annual reports)	Extent of disclosure	Regulations – the Securities Act	n/a
Gore	2004	US	Public – local government	Un-weighted	18 – GAAP index 13 non-GAAP index	Financial information (financial reports)	Extent of GAAP and non-GAAP disclosure	Requirements of Treasury Department (GAAP disclosure) Literature (non-GAAP disclosure)	n/a
Coy & Dixon	2004	New Zealand	Public - university	Weighted ( <i>for importance and quality criteria</i> )	58	Entire annual reports	Extent and quality of disclosure and accountability through reporting	Literature. Stakeholders' opinions through Delphi exercise.	Weighted according to importance of each piece of information as attributed by expert stakeholder groups Weighted according to <i>quality</i> criteria
Cahan et al.	2005	17 countries	Private	Weighted ( <i>for disclosure quality</i> )	216	Voluntary information (within annual reports)	Extent and quality of disclosure	Botosan's (1997) study	Botosan's (1997) study
Garcia-Meca & Martinez	2005	Spain	Private	Weighted ( <i>for disclosure quality</i> )	71	Intangibles information (within annual reports)	Extent and quality of disclosure	Literature	Weighted according to type of measure associated with each piece of information (qualitative/quantitative)
Bliss, Gul, Balachandran & Majid	2006	Malaysia	Private	Un-weighted & weighted ( <i>for importance</i> )	66	Voluntary information (within annual reports)	Extent of disclosure	Literature. Regulations.	Literature

# Appendix A Cont.

Study	Year	Country	Sector	Type of Index	Number of Items	Scope of Index Application	Purpose of Index Application	Basis of Items Selection	Basis of Weight Determination
Barako et al.	2006	Kenya	Private	Weighted (for importance)	47	Voluntary information (within annual reports)	Extent of disclosure	Literature	Weighted according to importance of each piece of information as attributed by bank loan officers (via survey)
Hassan et al.	2006	Egypt	Private	Un-weighted	75	Financial information (within annual reports)	Extent of disclosure	CIFAR Annual reports Professional users perception of information usefulness	n/a
Hossain & Reaz	2007	India	Private	Un-weighted	65	Voluntary information (within annual reports)	Extent of disclosure	Literature	n/a
Christiaens & Van Peteghem	2007	Belgium	Public – local government	Un-weighted	85	Financial information (within annual reports)	Level of compliance	Christiaens 's (1999) study Regulations	n/a
Tooley & Guthrie	2007	New Zealand	Public – school	Un-weighted and weighted (for informational value of disclosure)	24	Financial & non-financial information (entire annual reports)	Extent and informational value of disclosure	Coy et al's (1993a, 1993b) studies and Ryan et al.'s (2002) study	Weighted according to quality criteria drawn from literature and recent education developments
Van Staden & Hooks	2007	New Zealand	Private	Un-weighted & weighted (for disclosure quality)	32	Environmental information (within annual reports)	Extent and quality of disclosure	United Nations Environment Programme/Sustainability Index Literature	Weighted according to quality criteria scale drawn from literature



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## QUESTIONNAIRE

**AN INVESTIGATION INTO THE PERFORMANCE  
REPORTING PRACTICES AND ACCOUNTABILITY OF  
MALAYSIAN LOCAL AUTHORITIES**

**Appendix B Cont..**

**1. Do you think that a local authority should be accountable for its performance?**

☐ Yes, Why?

☐ No, Why Not?

**2. If you think local authorities are accountable for their performance, then to whom are they accountable? Please tick (✓) your relevant response (you may tick more than one).**

Federal government	<input type="checkbox"/>
State government	<input type="checkbox"/>
Councillor	<input type="checkbox"/>
Public as taxpayers	<input type="checkbox"/>
Public as service consumers	<input type="checkbox"/>
Employees	<input type="checkbox"/>
Creditors	<input type="checkbox"/>
Suppliers	<input type="checkbox"/>
Auditors	<input type="checkbox"/>
Other (please specify):	<input type="text"/>

**3. Based on your understanding, accountability means;**

Accountable for expenditure made in accordance with rules and regulations	<input type="checkbox"/>
Accountable for the use of financial resources	<input type="checkbox"/>
Accountable for the provision of efficient and effective services	<input type="checkbox"/>
Accountable for the management of entrusted public monies and organisational accomplishments	<input type="checkbox"/>
Rendering an account to the higher authority only	<input type="checkbox"/>
Rendering an account to all stakeholders	<input type="checkbox"/>
Other (please specify):	<input type="text"/>



Appendix B Cont..

4. What information would you expect to enable you to assess and monitor the performance of a local authority (LA)? How important is the disclosure of the information in the annual report of the LA?

Information Item	Is it the item you expect to enable you to assess and monitor the LA's performance? <i>[Please tick (✓) your relevant response]</i>		Degree of Importance  0 = Unimportant 1 = Minor importance 2 = Quite important 3 = Very important 4 = Extremely important <i>[Please tick (✓) the degree of importance you attach to each item]</i>				
	Yes	No	0	1	2	3	4
<b>A. Overview and Operational</b>							
Statement of objectives							
Mayor's/president's report							
Review of operations							
Organisation structure							
Internal control							
Environmental management							
Personnel							
Occupational health & safety							
Working environment							
Training programmes for staff							
Summary facts and figures							
Acknowledgement/award received from the state and federal government							
Problems in undertaking services/activities							
Reasons for current status of performance achievement							
Efforts in generating more revenue							
<b>Other items – please specify:</b>							
<b>B. Non-Financial Performance</b>							
Goals and objectives of services/activities							
Non-financial performance targets							

## Appendix B Cont..

	Yes	No	0	1	2	3	4
Performance Measurement							
<i>Input measure<sup>1</sup></i>							
<i>Output measure<sup>2</sup></i>							
<i>Impact measure<sup>3</sup></i>							
<i>Efficiency measure<sup>4</sup></i>							
<i>Effectiveness measure<sup>5</sup></i>							
<i>Client/customer satisfaction measure<sup>6</sup></i>							
<i>Productivity measure<sup>7</sup></i>							
Comparison between actual and target achievement							
Comparison between current and previous years achievement							
Report on the use of government grants							
Report on performance of contractors responsible for providing contracted services							
Achievement of specific programmes as ordered by the state/federal government							
<b>Other items – please specify:</b>							
<b>C. Financial</b>							
Auditor's report							
Financial review							
<b>Statement of Revenue and Expenditure:</b>							
<i>Revenue according to activities or services rendered</i>							
<i>Revenue according to source of revenue</i>							
<i>Total revenue</i>							

<sup>1</sup>Input: Amount of resources, (e.g. personnel) that have been used for a specific service or programme.

<sup>2</sup>Output: Amount of work performed (e.g. tons of waste collected or number of customers served).

<sup>3</sup>Impact (outcome): The impact of the service/programme/activity on society/customers.

<sup>4</sup>Efficiency: The ratio of input to output (e.g. employee-hours per number of customers served).

<sup>5</sup>Effectiveness: The relationship between the outputs or results and objectives.

<sup>6</sup>Client/Customer's satisfaction: The degree of customers' satisfaction with the service provided.

<sup>7</sup>Productivity: Input per effective service provided (e.g. labour hours per satisfied customers served).

## Appendix B Cont..

	Yes	No	0	1	2	3	4
Gross expenditure <sup>1</sup> according to services							
Net expenditure <sup>2</sup> according to services							
Expenditure classified by nature or function							
Total expenditure							
Total excess/surplus							
<b>Balance Sheet Statement:</b>							
Fixed assets:							
Operational assets at cost							
Operational assets at market value							
Non-operational assets at cost							
Non-operational assets at market value							
Community assets at cost							
Community assets at market value							
Infrastructure assets at cost							
Infrastructure assets at market value							
Total fixed assets							
Deferred charges							
Long-term investments							
Long-term debtors							
Current assets							
Current liabilities							
Long-term borrowings							
Deferred liabilities							
Deferred credits – government grants							
Reserves							
<b>Cash Flows Statement:</b>							
Operating cash flows							
Investing cash flows							
Financing cash flows							
Year end cash and cash equivalents							
Accounting Policies							
Financial performance ratios:							
Revenue to number of staff							
Total assets to number of staff							
Revenue to cost of service							
Return on assets							

<sup>1</sup> Gross Expenditure: Expenditure gross of all service specific income.

<sup>2</sup> Net Expenditure: Gross expenditure minus service specific income (e.g. specific grants, fees and charges).

**Appendix B Cont..**

	Yes	No	0	1	2	3	4
<i>Other financial performance ratios (please specify):</i>							
Actual to budget comparison							
Information about cost of service/activity							
<b>Other items – please specify:</b>							
<b>D. Future-Related Information</b>							
Future Plans							
Future performance targets							
Information pertaining to future capital improvements							
<b>Other items – please specify:</b>							

**5. Do you receive/obtain the annual report of a local authority?**

Yes (please proceed to question 6 and the subsequent questions)

No

If you do not receive/obtain the report, please answer why? (then proceed to question 10):

**Appendix B Cont..**

**6. How do you receive/obtain the annual report of a local authority?** Please tick (✓) your relevant response (*you may tick more than one*).

Directly from the local authority

From the public library

From the local authority's website

Other (please specify):


\_\_\_\_\_

**7. In what capacity do you receive/obtain the annual report of a local authority?** Please tick (✓) your relevant response (*you may tick more than one*).

A federal government authority

A state government authority

Management of local authority

A member of the public (taxpayer)

A member of the public (service consumer)

A firm using public service

Another government department

A councillor

An employee of local authority (other than management)

A creditor

A supplier

An auditor

A politician

A researcher


Other (please specify): \_\_\_\_\_

Appendix B Cont..

8. For what purpose do you review/use the annual report of a local authority? Please tick (✓) your relevant response (you may tick more than one).

To understand its background and operations

To analyse its financial statements

To review the report on services/activities undertaken


Other (please specify): \_\_\_\_\_

I receive the report but do not use it

--

Why not?


9. For what purpose do you use the performance information (financial and non-financial) included in the annual report of a local authority? Please tick (✓) your relevant response (you may tick more than one).

Decision-making

Performance appraisal

Accountability

Improvement in public service performance

Public participation


Other (please specify): \_\_\_\_\_

**Appendix B Cont..**

**10. Your Profile**

a. Gender: ☐ Male ☐ Female

b. Academic Qualification :

<input type="checkbox"/>	Doctor of Philosophy	
<input type="checkbox"/>	Master's degree	
<input type="checkbox"/>	Bachelor's degree	
<input type="checkbox"/>	Diploma	
<input type="checkbox"/>	Other: (please specify)	<hr/>

c. Age:

<input type="checkbox"/>	30 and below	<input type="checkbox"/>	41 – 50
<input type="checkbox"/>	31 – 40	<input type="checkbox"/>	51 and above

d. Employment (if relevant):

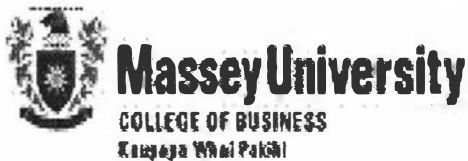
<input type="checkbox"/>	Professional	<input type="checkbox"/>	Technical
<input type="checkbox"/>	Management (executive)	<input type="checkbox"/>	Administration (clerical)
<input type="checkbox"/>	Other (please specify) <hr/>		

e. Monthly household gross income:

<input type="checkbox"/>	Below RM500	<input type="checkbox"/>	RM1,001 – RM2,500
<input type="checkbox"/>	RM500 – RM1,000	<input type="checkbox"/>	RM2,501 – RM5,000
<input type="checkbox"/>	Above RM5,000		

**THANK YOU FOR YOUR TIME AND COOPERATION**

Appendix C: Covering Letter to Questionnaire



SCHOOL OF ACCOUNTANCY  
Private Box 756  
Wellington, New Zealand

T 64 4 801 5799  
F 64 4 801 2885  
www-accountancy.massey.ac.nz

Date:

Dear Sir/Madam,  
**Research Project: An investigation into the performance reporting practices and accountability of Malaysian local authorities**

I, Norida Basnan, am a lecturer at the Pusat Pengajian Perakaunan, Fakulti Ekonomi dan Perniagaan, Universiti Kebangsaan Malaysia and am currently undertaking full time PhD research at Massey University, New Zealand. The research is undertaken to fulfil the requirements for the degree of Doctor of Philosophy (PhD) in Accounting. It involves a comprehensive examination of the performance reporting practices of Malaysian local authorities and aims to investigate whether current performance reporting of Malaysian local authorities meets the expectations of their stakeholders.

I therefore hope that you can assist me in this research project by completing the attached questionnaire. The questionnaire is designed mainly to gather data on performance information items you expect to enable you to assess and monitor the performance of a Malaysian local authority. I would also appreciate if you could rank the importance of each information item for disclosure in an annual report. For this purpose, a five-point rating scale below will be used. You may also add any further items you think worth considering.

0	1	2	3	4
<b>Unimportant</b> <i>(item should not be disclosed)</i>	<b>Minor importance</b> <i>(item should be disclosed but is of minor importance)</i>	<b>Quite important</b> <i>(item is of intermediate importance and it should be disclosed)</i>	<b>Very important</b> <i>(item should be disclosed and it is very important)</i>	<b>Extremely important</b> <i>(item is tremendously important and it must be disclosed)</i>

The questionnaire is also designed to seek your opinions on the accountability of a Malaysian local authority for its performance and the use of the performance information disclosed in the annual report.

This project is being conducted in accordance with established Massey University procedures relating to research. An enclosed information sheet sets out the purpose of the research project, research procedure and your rights as a participant.

I encourage your participation and look forward to receiving the completed questionnaire. If you seek clarification of any aspect of this research project, please do not hesitate to contact me (contact details are provided on the information sheet).

Thank you very much for your time and co-operation.

Yours faithfully,

**NORIDA BASNAN**



## **Appendix C Cont..**

### **INFORMATION SHEET**

#### **AN INVESTIGATION INTO THE PERFORMANCE REPORTING PRACTICES AND ACCOUNTABILITY OF MALAYSIAN LOCAL AUTHORITIES**

##### **Purpose of the research project**

The aim of the proposed research is to investigate if current performance reporting of Malaysian local authorities meets the expectations of their stakeholders. In achieving the aim, the main objectives are:

1. to identify the type of information that a broad group of stakeholders expect to enable them to assess and monitor the performance of Malaysian local authorities.
2. to evaluate the extent and quality of disclosure of performance information within annual reports of Malaysian local authorities and ascertain whether the informational expectations of stakeholders are being met.

##### **Procedure**

At the first stage, the research project will involve participants completing a questionnaire. It is expected that the questionnaire will take between 20 to 30 minutes to complete. The next stage will involve development of a disclosure index that will be used to assess the extent and quality of performance information currently disclosed in annual reports of Malaysian local authorities. Finally, the project will involve scoring the extent and quality of disclosure.

##### **Ethics**

Your identity will be protected and pseudonyms will be used in presenting the research findings (that will be embodied in a PhD thesis and reported in scholarly publications and conferences). All data gathered from this survey will be locked away and only my supervisors and I and the examiners of the PhD thesis will have access to the data. The data will be securely disposed of five years from the date of the conclusion of the research project.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. As the researcher of this project, I am responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone 06 350 5249, email: [humanethicspn@massey.ac.nz](mailto:humanethicspn@massey.ac.nz).

## **Appendix C Cont..**

### **Your rights as a participant**

You are under no obligation to accept this invitation. If you decide to participate, your rights are as follows:

- To decline to answer any particular question;
- To ask any questions about the study at any time during participation;
- Your identity and your organisation's name will not be used unless you give permission to the researcher;
- You will be given access to a summary of the project findings (if required) when it is concluded.

### **Contact Details**

#### ***Researcher:***

##### **Norida Basnan**

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## Appendix D: A Summary of Potential Items and Their Source of References

	SOURCE OF REFERENCE																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<b>OVERVIEW AND OPERATIONAL</b>																	
Statement of objectives	X	X	X														
Mayor's report/president's statement	X																
Review of operations						X			X								
Organisation structure	X																
Internal control	X																
Environment report	X																
Personnel	X	X															
Occupational health & safety	X																
Equal employment opportunity	X																
Training programmes for staff																	X
Summary facts & figures	X	X				X			X								X
Acknowledgment/award received from the state and federal government																	X
Problems in undertaking services/activities														X			
Reasons for current status of performance achievement														X			
Efforts in generating more revenue																	X
<b>NON-FINANCIAL PERFORMANCE</b>																	
Goals and objectives of services/activities								X									
Non- financial performance targets		X														X	
Performance measurement:	X					X											
Input measures		X			X			X			X						
Output measures		X						X	X	X	X						
Outcome measures		X					X	X	X	X	X						
Efficiency measures		X					X	X	X	X	X					X	
Effectiveness measures								X	X		X					X	
Client/customer satisfaction measures							X			X						X	
Productivity measures																X	
Comparison between actual and target achievement																	X

## Appendix D Cont..

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Comparison between current and previous years achievement																	X
Report on the usage of government grants																	X
Performance of contractors responsible for providing contracted services																	X
Achievement of specific programmes as ordered by the state and federal government																	X
<b>FINANCIAL INFORMATION/PERFORMANCE</b>																	
Auditor's report				X	X				X			X		X			
Financial review	X	X				X						X					
Statement of financial performance/ Statement of revenue and expenditure:	X	X		X	X	X			X			X		X	X		
<i>Income according to activities or services rendered</i>													X				
<i>Income according to source of income</i>													X		X		
<i>Total revenue</i>															X		
<i>Gross expenditure according to services</i>													X				
<i>Net expenditure according to services</i>													X				
<i>Expenditure classified by nature or function</i>															X		
<i>Total expenditure</i>															X		
<i>Total excess/surplus</i>															X		
Statement of financial position/balance sheet:	X	X		X	X	X			X			X		X	X		
<i>Fixed assets:</i>															X		
<i>Operational assets at book value</i>													X				
<i>Operational assets at fair value</i>																	X
<i>Non-operational assets at book value</i>													X				
<i>Non-operational assets at fair value</i>																	X
<i>Community assets at book value</i>													X				
<i>Community assets at fair value</i>																	X
<i>Infrastructure assets at book value</i>													X				
<i>Infrastructure assets at fair value</i>																	X

## Appendix D Cont..

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<i>Total fixed assets</i>													X		X		
<i>Deferred charges</i>													X		X		
<i>Long-term investments</i>													X		X		
<i>Long-term debtors</i>													X		X		
<i>Current assets</i>													X		X		
<i>Current liabilities</i>													X		X		
<i>Long-term borrowings</i>													X		X		
<i>Deferred liabilities</i>													X		X		
<i>Deferred credits – government grants</i>													X		X		
<i>Reserves</i>													X		X		
Statement of cash flow:	X	X		X	X	X			X			X		X	X		
<i>Operating cash flows</i>															X		
<i>Investing cash flows</i>															X		
<i>Financing cash flows</i>															X		
<i>Year end cash and cash equivalents</i>															X		
Accounting policies	X	X												X	X		
Financial performance ratios	X																
<i>Revenue to number of staff</i>																	X
<i>Asset to number of staff</i>																	X
<i>Revenue to cost of service</i>																	X
<i>Return on assets</i>																	X
Actual to budget comparison	X			X	X	X											
Information about cost of service/activity			X														
<b>FUTURE-RELATED INFORMATION</b>																	
Future plans																	
Future performance targets								X									
Information pertaining to future capital improvements				X													

Note: Source of reference is the study from which the particular items were selected.

- |                               |                                |  |
|-------------------------------|--------------------------------|--|
| 1. Ryan et al. (2002b)        | 7. OECD (1994)                 | 13. The CIPFA (1993) Code of Practice on Local Authority Accounting for Great Britain  |
| 2. Banks et al. (1997)        | 8. Connolly and Hyndman (2004) | 14. The Treasury Circular No.4/2007: Guidelines for preparation and presentation of annual reports and financial statements of statutory bodies of Malaysia                      |
| 3. Anthony (1978)             | 9. Clark (2003)                | 15. The Financial Reporting Standards of Malaysia  |
| 4. Robbins and Austin (1986)  | 10. Boyne (2002)               | 16. The Public Administration Development Circular No 2/2005: Guidelines to establish key performance indicators and to implement performance measurement in government agencies |
| 5. Daniels and Daniels (1991) | 11. Pollanen (2005)            | 17. Opinions by experts (accountants, internal auditor and researchers with public sector research experience)   |
| 6. Mack and Ryan (2004)       | 12. Tayib et al. (1999)        |  |

## Appendix E: Reasons for Local Authorities to be Held Accountable

Focus	External			Internal		
	Public (n = 399)	Creditors (n = 12)	State Govt (n = 6)	Councillors (n = 13)	Management (n = 92)	Employees (n = 144)
<b>Customer:</b>						
• Raise level of customer satisfaction	16	8	0	8	8	8
• To increase customer confidence and trust	13	8	0	0	6	7
• To ensure quality services are provided	8	0	17	8	11	9
• To improve the quality of services provided	<u>2</u>	<u>0</u>	<u>0</u>	<u>8</u>	<u>1</u>	<u>1</u>
Total	39	<u>16</u>	<u>17</u>	<u>24</u>	<u>26</u>	<u>25</u>
<b>Tax/ratepayer:</b>						
• Responsibility for tax/ratepayer monies	26	25	67	38	29	30
<b>Public:</b>						
• To improve public image and support	17	8	0	15	18	10
• To demonstrate public benefit	<u>1</u>	<u>17</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>3</u>
Total	<u>18</u>	<u>25</u>	<u>0</u>	<u>15</u>	<u>23</u>	<u>13</u>
<b>Organisational:</b>						
• To improve managerial performance	13	33	17	8	12	20
• To improve financial control	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>10</u>
Total	<u>13</u>	<u>33</u>	<u>17</u>	<u>8</u>	<u>19</u>	<u>30</u>
<b>Government:</b>						
• In return for delegated powers/responsibilities	1	0	0	8	0	1
• Obligation as a government agency	<u>0</u>	<u>0</u>	<u>0</u>	<u>8</u>	<u>1</u>	<u>0</u>
Total	<u>1</u>	<u>0</u>	<u>0</u>	<u>16</u>	<u>1</u>	<u>1</u>
<b>No reason stated</b>	3	0	0	0	1	1
<b>TOTAL (*rounding error)</b>	----- 100%	----- 99%*	----- 101%*	----- 101%*	----- 99%*	----- 100%

## Appendix F: Accountability Relationship (Accountability to Whom?)

	External			Internal		
	Public (n = 399)	Creditors (n = 12)	State Govt (n = 6)	Councillors (n = 13)	Management (n = 92)	Employees (n = 144)
Public as tax payers	98	58	100	92	79	83
Public as service consumers	92	58	83	85	73	82
State government	68	92	100	92	75	71
Federal government	48	58	83	77	67	55
Councillors	28	17	83	54	47	47
Employees	26	25	67	46	48	49
Creditors (suppliers/lenders)	10	8	67	54	30	36
Auditors	8	8	83	31	30	29

### Appendix G(i): Understanding ‘Accountability’: Patterns on the Scope of Accountability

	External			Internal		
	Public (n = 366)	Creditors (n = 12)	State Govt (n = 6)	Councillors (n = 10)	Management (n = 86)	Employees (n = 131)
Indicated (a) only	4	0	0	0	8	6
Indicated (b) only	19	8	0	0	7	5
Indicated (c) only	13	0	0	30	9	19
Indicated (d) only	4	0	0	0	0	0
<b>TOTAL</b>	<b>40%</b> =====	<b>8%</b> =====	<b>0%</b> =====	<b>30%</b> =====	<b>24%</b> =====	<b>30%</b> =====
Indicated (a) only	4	0	0	0	8	6
Indicated (a) and (b), or (b); but not (c) or (d)	24	8	0	0	8	6
Indicated (a) and/or (b) and (c), or (c); but not (d)	27	0	0	40	24	30
Indicated (a) and/or (b) and/or (c), and (d), or (d)	45	92	100	60	40	58
<b>TOTAL</b>	<b>100%</b> =====	<b>100%</b> =====	<b>100%</b> =====	<b>100%</b> =====	<b>100%</b> =====	<b>100%</b> =====

Notes:

- a) Accountable for expenditure made in accordance with rules and regulations.
- b) Accountable for the use of financial resources.
- c) Accountable for the provision of efficient and effective services.
- d) Accountable for the management of entrusted public monies and organisational accomplishments.



# **Appendix G(ii): Understanding ‘Accountability’: the Direction of Accountability**

	External			Internal		
	Public (n = 323)	Creditors (n = 8)	State Govt (n = 6)	Councillors (n = 11)	Management (n = 51)	Employees (n = 82)
Rendering an account to the higher authority only	10	0	17	9	6	4
Rendering an account to all stakeholders	90	100	83	91	94	96
<b>TOTAL</b>	100% =====	100% =====	100% =====	100% =====	100% =====	100% =====

## Appendix H: Mean Scores for Individual Stakeholder Type

Information Item	Internal Stakeholders			External Stakeholders		
	Management	Councillors	Employees	Public	Creditors	State Government
<b>Overview and Operational</b>						
Statement of objectives	2.89 <sup>1,a</sup>	2.46	2.92 <sup>2,b</sup>	2.04 <sup>1,2</sup>	1.83 <sup>a,b</sup>	2.83
Mayor's/president's report	2.58 <sup>1</sup>	2.46	2.85 <sup>2</sup>	2.04 <sup>1,2</sup>	2.50	2.33
Review of operations	2.66 <sup>1</sup>	2.85 <sup>a</sup>	2.74 <sup>2</sup>	2.11 <sup>1,2,a</sup>	1.92	2.67
Organisation structure	2.73 <sup>1</sup>	2.08	2.62 <sup>2</sup>	1.53 <sup>1,2</sup>	2.17	2.50
Internal control	2.91 <sup>1,b</sup>	2.23 <sup>b,3</sup>	3.03 <sup>2,3</sup>	2.30 <sup>1,2,a</sup>	3.00 <sup>a</sup>	3.00
Environmental management	2.89 <sup>1</sup>	2.62	3.00 <sup>2</sup>	2.35 <sup>1,2</sup>	2.83	2.33
Personnel	2.90 <sup>1,b</sup>	2.08 <sup>b,c</sup>	2.97 <sup>2,c</sup>	2.07 <sup>1,2,a</sup>	2.92 <sup>a</sup>	2.17
Occupational health & safety	2.78 <sup>1,a,c</sup>	1.69 <sup>d,c</sup>	2.98 <sup>2,3,4,b</sup>	1.67 <sup>1,2</sup>	1.92 <sup>3,a</sup>	1.83 <sup>b</sup>
Working environment	2.82 <sup>1,3,a</sup>	1.92 <sup>a,b</sup>	2.84 <sup>2,4,b</sup>	1.61 <sup>1,2</sup>	2.25	1.50 <sup>3,4</sup>
Training programmes for staff	2.88 <sup>1,3,a</sup>	1.77 <sup>a,3</sup>	2.88 <sup>2,4,b</sup>	1.68 <sup>1,2</sup>	2.50	1.50 <sup>3,4</sup>
Summary facts and figures	2.85 <sup>1</sup>	2.23	2.75 <sup>2</sup>	1.78 <sup>1,2,a</sup>	2.67 <sup>a</sup>	2.33
Acknowledgement/ward received from the state/federal government	2.76 <sup>1</sup>	2.15	2.77 <sup>2</sup>	1.98 <sup>1,2</sup>	2.42	2.17
Problems in undertaking services/activities	2.98	3.08	2.99	2.74	3.08	2.50
Reasons for current status of performance achievement	2.91	2.85	2.94	2.90	3.17	2.33
Efforts in generating more revenue	3.00	3.00	3.06	3.01	2.75	3.00
<i>Average Mean Score</i>	<i>2.84</i>	<i>2.36</i>	<i>2.89</i>	<i>2.12</i>	<i>2.53</i>	<i>2.33</i>
<b>Non-financial Performance</b>						
Goals and objectives of services/activities	3.00	2.15	2.92	2.71	2.83	2.33
Non-financial performance targets	2.88	1.31	2.80	2.59	3.00	2.50
Input measures	2.91	1.46	2.92	2.84	2.92	2.17
Output measures	3.11	1.77	3.02	3.02	3.00	2.67
Impact measures	3.22	2.08	3.15	3.09	3.08	3.17
Efficiency measures	3.11	2.31	3.09	3.05	3.08	3.00
Effectiveness measures	3.13	2.08	3.12	3.04	3.17	3.00
Customer satisfaction measures	3.14	2.08	3.06	3.13	3.00	2.83
Productivity measures	3.21	2.46	3.10	3.13	3.25	3.00
Comparison between actual and target achievement	3.09	2.39	3.08	3.00	3.67	3.00
Comparison between current and previous years achievement	3.08	2.69	3.08	3.08	3.58	3.33
Report on the use of government grants	2.89	2.54	3.04	3.01	3.50	3.17

## Appendix H Cont..

Information Item	Internal Stakeholders			External Stakeholders		
	Management	Councillors	Employ s	Public	Creditors	State Government
Performance of contractor responsible for providing contracted services	2.79	2.23	2.98	3.00	2.75	3.33
Achievement of specific programmes as ordered by state/federal government	3.01	2.08	3.00	2.97	3.08	3.17
<i>Average Mean Score</i>	<i>3.04</i>	<i>2.12</i>	<i>3.03</i>	<i>2.98</i>	<i>3.14</i>	<i>2.91</i>
<b>Financial</b>						
<b>Statement of Revenue and Expenditure</b>						
Revenue according to activities or services rendered	3.08	2.69	3.05	3.19	3.00	3.00
Revenue according to source of revenue	3.02	2.31	3.10	3.11	3.42	2.50
Total revenue	3.04	2.46	3.07	3.13	3.08	3.33
Gross expenditure according to service	3.12	2.69	3.12	3.16	3.25	2.67
Net expenditure according to service	3.08	2.31	3.15	3.15	3.08	2.00
Expenditure classified by nature or function	3.11	2.23	3.17	3.18	3.42	2.33
Total expenditure	3.13	2.15	3.06	3.13	3.25	3.50
Total excess/surplus	3.08	2.92	3.06	3.19	3.00	3.67
<i>Average Mean Score</i>	<i>3.08</i>	<i>2.47</i>	<i>3.10</i>	<i>3.16</i>	<i>3.19</i>	<i>2.88</i>
<b>Balance Sheet</b>						
Operational assets at cost	2.81 <sup>1</sup>	2.08	2.83 <sup>2</sup>	2.23 <sup>1,2,a</sup>	3.00 <sup>a</sup>	1.83
Operational assets at market value	2.75 <sup>1</sup>	1.85	2.70 <sup>2</sup>	1.95 <sup>1,2,3</sup>	2.92 <sup>3</sup>	2.17
Non-operational assets at cost	2.76 <sup>1, a</sup>	1.62 <sup>a, b</sup>	2.64 <sup>2, b</sup>	1.82 <sup>1,2, 3</sup>	2.83 <sup>3</sup>	2.00
Non-operational assets at market value	2.84 <sup>1</sup>	1.77	2.69 <sup>2</sup>	1.76 <sup>1,2, 3</sup>	2.92 <sup>3</sup>	2.17
Community assets at cost	2.85 <sup>1</sup>	1.85	2.72 <sup>2</sup>	1.79 <sup>1,2, 3</sup>	3.00 <sup>3</sup>	2.00
Community assets at market value	2.74 <sup>1</sup>	1.77	2.66 <sup>2</sup>	1.79 <sup>1,2, 3</sup>	2.92 <sup>3</sup>	2.17
Infrastructure assets at cost	2.76 <sup>1</sup>	1.92	2.64 <sup>2</sup>	1.81 <sup>1,2, 3</sup>	3.00 <sup>3</sup>	2.17
Infrastructure assets at market value	2.62 <sup>1</sup>	1.77	2.68 <sup>2</sup>	1.76 <sup>1,2, 3</sup>	2.83 <sup>3</sup>	2.17
Total fixed assets	2.67 <sup>1</sup>	2.54	2.78 <sup>2</sup>	1.80 <sup>1,2, a</sup>	2.83 <sup>a</sup>	2.83
Deferred charges	2.65 <sup>1</sup>	1.77	2.76 <sup>2</sup>	1.73 <sup>1,2, a</sup>	2.67 <sup>a</sup>	2.83
Long-term investments	2.65 <sup>1</sup>	1.92	2.73 <sup>2</sup>	1.79 <sup>1,2,3, a</sup>	2.83 <sup>3</sup>	3.1 <sup>a</sup>
Long-term debtors	2.65 <sup>1</sup>	2.00	2.76 <sup>2</sup>	1.69 <sup>1,2,3, a</sup>	2.67 <sup>a</sup>	3.33 <sup>3</sup>
Current assets	2.66 <sup>1</sup>	2.54	2.73 <sup>2</sup>	1.86 <sup>1,2, 3</sup>	2.58	3.50 <sup>3</sup>
Current liabilities	2.69 <sup>1</sup>	2.46	2.78 <sup>2</sup>	1.79 <sup>1,2, 3, a</sup>	2.58 <sup>a</sup>	3.50 <sup>3</sup>
Long-term borrowings	2.69 <sup>1</sup>	2.08	2.74 <sup>2</sup>	1.76 <sup>1,2, a, b</sup>	2.58 <sup>a</sup>	3.17 <sup>b</sup>

## Appendix H Cont..

Information Item	Internal Stakeholders			External Stakeholders		
	Management	Councillors	Employees	Public	Creditors	State Government
Deferred liabilities	2.82 <sup>1</sup>	1.77	2.63 <sup>2</sup>	1.73 <sup>1,2,3</sup>	2.25	3.50 <sup>3</sup>
Deferred credits – government grants	2.70 <sup>1</sup>	1.69	2.67 <sup>2</sup>	1.75 <sup>1,2,a</sup>	2.42	3.17 <sup>a</sup>
Reserves	2.81 <sup>1</sup>	1.92	2.78 <sup>2</sup>	1.73 <sup>1,2,3,a</sup>	2.75 <sup>a</sup>	3.50 <sup>3</sup>
<i>Average Mean Score</i>	2.73	1.96	2.72	1.81	2.75	2.73
<b>Cash Flow Statement</b>						
Operating cash flows	2.79 <sup>1</sup>	2.92 <sup>3</sup>	2.80 <sup>2</sup>	1.91 <sup>1,2,3,a</sup>	2.67	3.33 <sup>a</sup>
Investing cash flows	2.74 <sup>1</sup>	1.92	2.83 <sup>2</sup>	1.92 <sup>1,2,a</sup>	2.33	3.33 <sup>a</sup>
Financing cash flows	2.76 <sup>1</sup>	2.23	2.88 <sup>2</sup>	1.98 <sup>1,2,a</sup>	2.67	3.33 <sup>a</sup>
Year end cash and cash equivalents	2.77 <sup>1</sup>	2.69	2.85 <sup>2</sup>	2.00 <sup>1,2</sup>	3.08	2.83
<i>Average Mean Score</i>	2.76	2.44	2.84	1.95	2.69	3.21
<b>Financial Information Outside Financial Statements</b>						
Auditor's report	3.04	2.38	3.04 <sup>a</sup>	2.89 <sup>a</sup>	3.25	3.50
Financial review	2.88	2.00	3.04	2.91	2.75	3.17
Accounting policies	2.80 <sup>1</sup>	2.38	2.89 <sup>2</sup>	2.23 <sup>1,2</sup>	2.58	3.00
Revenue to number of staff	2.86 <sup>1</sup>	1.85	2.91 <sup>2,a</sup>	2.40 <sup>1,2</sup>	2.67	1.50 <sup>a</sup>
Total asset to number of staff	2.90 <sup>1,a,b</sup>	1.77 <sup>b,c</sup>	2.90 <sup>2,3,e</sup>	2.52 <sup>1,2</sup>	3.00	1.50 <sup>3,a</sup>
Revenue to cost of service	2.94 <sup>2,a</sup>	2.54	3.03 <sup>1,3</sup>	2.66 <sup>1,a,b</sup>	3.17	1.67 <sup>2,3,b</sup>
Return on assets	3.06 <sup>1,a</sup>	2.31	3.05 <sup>c</sup>	2.76 <sup>a,b,c</sup>	2.75	1.17 <sup>b</sup>
Actual to budget comparison	3.08	2.77	3.14 <sup>1</sup>	2.89 <sup>1</sup>	3.08	2.17
Information about cost of service/activity	3.06	2.69	3.14	3.04	2.83	1.83
<i>Average Mean Score</i>	2.96	2.30	3.02	2.70	2.90	2.17
<b>Future-Related Information</b>						
Future plans	3.21	2.85	3.24	3.22	3.00	2.67
Future performance targets	3.21	3.15	3.27	3.14	3.08	2.67
Information pertaining to future capital improvements	3.08	2.92	3.14	3.14	2.92	2.67
<i>Average Mean Score</i>	3.17	2.97	3.22	3.17	3.00	2.67

M = Management (92); C = Councillors (n = 13); E = Employees (n = 144); P = Public (n = 399); Cr = Creditor (n = 12); SG = State Government (n = 6).

(0=unimportant; 1=minor importance; 2=quite important; 3=very important; 4=extremely important)

Superscript denotes combinations of mean scores that are significantly different (refer Appendix I) and where: <sup>1,2</sup> p < 0.01 and <sup>a,b...</sup> p < 0.05.

**Appendix I: Test Statistics for Information Items with a Significant Difference between Stakeholder Group Means on the Level of Item Importance**

Information Item	Z Score by Pairs of Stakeholder Groups (showing only differences that are significant; p values are shown in parentheses)														
	P/Cr	P/SG	P/M	P/C	P/E	Cr/SG	Cr/M	Cr/C	Cr/E	SG/M	SG/C	SG/E	M/C	M/E	C/E
Statement of objectives			-6.235 (.000)		-7.926 (.000)		-2.045 (.041)		-2.150 (.032)						
Mayor's/president's report			-4.231 (.000)		-7.452 (.000)										
Review of operations			-4.299 (.000)	-2.414 (.016)	-5.502 (.000)										
Organisation structure			-7.575 (.000)		-8.365 (.000)										
Internal control	-2.105 (.035)		-4.108 (.000)		-5.879 (.000)								-2.205 (.027)		-2.675 (.007)
Environmental management			-3.344 (.001)		-4.975 (.000)										
Personnel	-2.512 (.012)		-6.042 (.000)		-7.995 (.000)								-2.153 (.031)		-2.505 (.012)
Occupational health & safety			-7.041 (.000)		-9.814 (.000)		-2.342 (.019)		-2.897 (.004)			-2.100 (.036)	-2.527 (.011)		-3.072 (.002)
Working environment			-7.591 (.000)		-9.307 (.000)					-2.716 (.007)		-2.934 (.003)	-2.212 (.027)		-2.280 (.023)
Training programmes for staff			-7.423 (.000)		-8.888 (.000)					-2.908 (.004)		-3.015 (.003)	-2.479 (.013)		-2.574 (.010)
Summary facts and figures	-2.057 (.040)		-6.566 (.000)		-7.173 (.000)										
Acknowledgement/award received from the state/federal government			-4.867 (.000)		-5.835 (.000)										
Operational assets at cost	-2.088 (.037)		-3.888 (.000)		-4.905 (.000)										
Operational assets at market value	-2.695 (.007)		-5.313 (.000)		-6.156 (.000)										

# Appendix I Cont..

Information Item	Z Score by Pairs of Stakeholder Groups (showing only differences that are significant; p values are shown in parentheses)														
	P/Cr	P/SG	P/M	P/C	P/E	Cr/SG	Cr/M	Cr/C	Cr/E	SG/M	SG/C	SG/E	M/C	M/E	C/E
Non-operational assets at cost	-2.801 (.005)		-6.229 (.000)		-6.606 (.000)								-2.199 (.028)		-1.979 (.048)
Non-operational assets at market value	-3.152 (.002)		-7.087 (.000)		-7.469 (.000)										
Community assets at cost	-3.220 (.001)		-6.915 (.000)		-7.511 (.000)										
Community assets at market value	-2.994 (.003)		-6.301 (.000)		-7.148 (.000)										
Infrastructure assets at cost	-3.062 (.002)		-6.130 (.000)		-6.520 (.000)										
Infrastructure assets at market value	-2.913 (.004)		-5.551 (.000)		-7.188 (.000)										
Total fixed assets	-2.466 (.014)		-5.025 (.000)		-6.964 (.000)										
Deferred charges	-2.513 (.012)		-5.848 (.000)		-7.971 (.000)										
Long-term investments	-2.687 (.007)	-2.449 (.014)	-5.520 (.000)		-7.341 (.000)										
Long-term debtors	-2.352 (.019)	-2.908 (.004)	-5.983 (.000)		-8.001 (.000)										
Current assets		-2.907 (.004)	-5.138 (.000)		-6.711 (.000)										
Current liabilities	-2.067 (.039)	-3.011 (.003)	-5.789 (.000)		-7.577 (.000)										
Long-term borrowings	-1.977 (.048)	-2.430 (.015)	-5.792 (.000)		-7.315 (.000)										
Deferred liabilities		-3.004 (.003)	-6.649 (.000)		-6.582 (.000)										
Deferred credits – government grants		-2.431 (.015)	-5.870 (.000)		-6.865 (.000)										

# Appendix I Cont..

Information Item	Z Score by Pairs of Stakeholder Groups (showing only differences that are significant; p values are shown in parentheses)														
	P/Cr	P/SG	P/M	P/C	P/E	Cr/ SG	Cr/M	Cr/ C	Cr/E	SG/M	SG/ C	SG/E	M/C	M/ E	C/E
Reserves	-2.493 (.013)	-3.002 (.003)	-6.617 (.000)		-7.748 (.000)										
Investing cash flows		-2.478 (.013)	-5.133 (.000)		-6.832 (.000)										
Financing cash flows		-2.362 (.018)	-4.823 (.000)		-6.666 (.000)										
Year-end cash and cash equivalents			-4.897 (.000)		6.532 (.000)										
Auditor's report					-1.959 (.050)										
Accounting policies			-3.684 (.000)		-5.185 (.000)										
Revenue to number of staff			-3.162 (.002)		-3.919 (.000)							-2.074 (.038)			
Total asset to number of staff			-2.775 (.006)		-3.073 (.002)					-2.029 (.042)		-2.065 (.005)	-1.976 (.048)		-2.032 (.042)
Revenue to cost of service		-2.324 (.020)	-2.084 (.037)		-3.071 (.002)					-2.612 (.009)		-2.841 (.004)			
Return on assets		-2.467 (.014)	-2.261 (.024)		-2.386 (.017)					-2.770 (.006)					
Actual to budget comparison					-2.627 (.009)										

P = Public (n = 399); Cr = Creditor (n = 12); SG = State Government (n = 6); M = Management (92); C = Councillors (n = 13); E = Employees (n = 144).

**Appendix J: A Summary of Responses of Round One**

ITEM	PANEL MEMBER												MEAN	SD
	1	2	3	4	5	6	7	8	9	10	11	12		
A1	3	2	4	4	3	4	2	4	3	4	4	4	3.42	0.79
A2	3	3	4	0	3	3	2	3	4	4	4	3	3.00	1.13
A3	3	3	4	4	3	4	2	4	3	3	3	4	3.33	0.65
A4	3	4	4	3	2	1	2	3	3	3	4	-	2.91	0.94
A5	4	2	4	3	2	2	2	4	4	4	3	4	3.17	0.94
A6	4	2	4	4	2	3	2	3	3	2	2	3	2.83	0.83
A7	3	2	3	2	2	2	2	3	3	2	3	4	2.58	0.67
A8	4	1	1	1	3	4	2	3	3	3	3	3	2.58	1.08
A9	4	2	3	3	3	3	2	3	3	3	3	3	2.92	0.51
A10	3	3	4	1	2	1	2	4	3	2	2	4	2.58	1.08
A11	4	2	4	4	2	4	2	2	3	3	2	4	3.00	0.95
A12	2	1	3	4	2	4	2	4	3	3	3	-	2.82	0.98
A13	3	2	4	0	1	4	2	3	3	1	2	3	2.33	1.23
A14	4	2	4	0	1	4	2	3	3	4	3	3	2.75	1.29
A15	4	3	4	4	2	4	2	3	3	4	3	4	3.33	0.78
B1	3	2	4	3	3	2	2	3	3	4	3	4	3.00	0.74
B2	3	1	4	0	4	3	3	3	3	4	3	3	2.83	1.19
B3	3	1	3	2	2	4	2	3	2	3	3	3	2.58	0.79
B4	3	2	3	2	2	4	3	4	2	4	3	4	3.00	0.85
B5	3	3	3	2	2	4	3	4	2	4	3	3	3.00	0.74
B6	3	2	3	1	2	3	3	4	2	3	3	3	2.67	0.78
B7	3	1	3	3	2	3	3	4	2	4	3	4	2.92	0.90
B8	3	2	4	2	2	4	2	4	3	4	3	3	3.00	0.85
B9	3	1	-	2	2	3	3	4	3	4	3	-	2.80	0.92
B10	3	3	4	2	2	4	3	4	3	4	3	4	3.25	0.75
B11	4	2	4	3	2	4	3	4	4	4	3	3	3.33	0.78
B12	0	2	3	2	3	4	3	2	3	4	4	4	2.83	1.19
B13	2	3	3	0	3	4	4	4	3	4	3	4	3.08	1.16
B14	2	2	4	4	2	4	3	4	3	3	3	3	3.08	0.79
C1	4	3	-	4	4	4	3	4	4	4	4	4	3.82	0.40
C2	4	2	-	3	4	4	3	2	4	4	3	3	3.27	0.79
C3	3	3	4	3	4	3	3		3	3	3	4	3.27	0.47
C4	3	3	4	2	4	4	3	1	3	3	3	4	3.08	0.90
C5	3	2	4	3	4	4	3	3	3	3	3	4	3.25	0.62
C6	3	3	3	3	4	3	3	3	3	3	3	4	3.17	0.39
C7	3	2	3	3	4	4	3	2	3	3	3	4	3.08	0.67
C8	3	2	4	2	4	3	2	2	3	3	3	4	2.92	0.79
C9	3	3	4	2	4	4	2	4	3	3	3	4	3.25	0.75
C10	3	2	4	2	4	4	2	2	3	3	3	4	3.00	0.85
C11	4	1	2	1	4	4	3	3	3	3	4	4	3.00	1.13
C12	4	1	2	1	4	4	3	2	3	3	4	4	2.92	1.16
C13	4	1	2	1	4	4	2	1	2	3	3	4	2.58	1.24
C14	4	3	2	1	4	4	2	2	2	3	3	4	2.83	1.03
C15	4	2	2	1	4	3	3	3	2	3	3	4	2.83	0.94



Appendix J Cont..

ITEM	PANEL MEMBER												MEAN	SD
	1	2	3	4	5	6	7	8	9	10	11	12		
C16	4	3	2	1	4	3	3	3	2	3	3	4	2.92	0.90
C17	4	2	-	3	4	3	3	3	2	3	3	4	3.09	0.70
C18	4	3	-	3	4	3	3	3	2	3	3	3	3.09	0.54
C19	4	1	-	4	4	4	3	3	3	3	4	4	3.36	0.92
C20	4	3	-	2	4	1	2	2	3	3	3	3	2.73	0.90
C21	4	1	-	2	4	4	2	3	3	4	4	4	3.18	1.08
C22	4	1	-	2	4	4	3	2	3	4	4	4	3.18	1.08
C23	4	2	-	3	4	4	3	4	3	3	4	4	3.45	0.69
C24	4	2	-	2	4	4	3	2	3	4	4	4	3.27	0.90
C25	4	3	-	2	4	4	2	3	3	4	4	3	3.27	0.79
C26	4	3	-	2	4	4	3	2	3	4	4	3	3.27	0.79
C27	4	2	2	2	4	2	2	2	3	4	4	3	2.83	0.94
C28	4	1	-	2	4	1	2	2	3	4	4	4	2.82	1.25
C29	4	2	3	2	4	4	3	4	4	4	4	-	3.45	0.82
C30	4	1	3	2	4	4	3	4	4	4	4	3	3.33	0.98
C31	4	2	3	2	4	4	2	4	4	4	4	4	3.42	0.90
C32	4	3	3	2	4	4	2	2	4	4	4	3	3.25	0.87
C33	4	4	-	2	4	4	3	3	3	3	4	4	3.45	0.69
C34	4	2	3	0	4	2	2	2	2	3	3	2	2.42	1.08
C35	4	2	2	0	4	2	2	2	2	3	3	2	2.33	1.07
C36	4	2	3	0	4	3	3	2	3	3	3	2	2.67	1.07
C37	4	2	3	2	4	3	2	2	3	3	4	3	2.92	0.79
C38	4	3	4	3	4	4	3	4	3	4	4	4	3.67	0.49
C39	4	3	3	3	4	4	2	2	2	4	4	4	3.25	0.87
D1	2	4	4	4	4	4	3	3	3	4	4	4	3.58	0.67
D2	3	3	4	3	4	4	2	3	3	4	4	3	3.33	0.65
D3	2	3	4	2	4	1	2	3	3	4	3	3	2.83	0.94
ADDITIONAL ITEMS - ROUND ONE														
A11	4													
A12	3													
A13			4											
A14			3											
A15							2							
A16							2							
A17						4								
A18						4								
A19									4					

# Appendix K: A Summary of Responses of Round Two

ITEM	PANEL MEMBER												MEAN	SD	MEAN SI
	1	2	3	4	5	6	7	8	9	10	11	12			
A1	3	2	4	4	3	4	2	4	3	4	4	4	3.42	0.79	2.36
A2	3	3	4	4	3	3	2	3	4	4	4	3	3.33	0.65	2.31
A3	3	3	4	4	3	4	2	4	3	3	3	4	3.33	0.65	2.34
A4	3	4	4	3	2	2	2	3	3	3	4	4	3.08	0.79	1.96
A5	4	2	4	3	2	2	3	4	4	4	3	4	3.25	0.87	2.56
A6	4	2	4	4	2	3	2	3	3	3	3	3	3.00	0.74	2.58
A7	3	2	3	2	2	2	2	3	3	3	3	4	2.67	0.65	2.4
A8	4	2	1	1	3	4	2	3	3	3	3	3	2.67	0.98	2.11
A9	4	2	3	3	3	3	2	3	3	3	3	3	2.92	0.51	2.06
A10	3	3	4	1	2	2	2	4	3	2	3	4	2.75	0.97	2.12
A11	4	2	4	4	2	4	2	2	3	3	3	4	3.08	0.90	2.17
A12	2	1	3	4	2	4	2	4	3	3	3	3	2.83	0.94	2.27
A13	3	2	4	3	1	4	2	3	3	1	3	3	2.67	0.98	2.84
A14	4	2	4	2	1	4	2	3	3	4	3	3	2.92	1.00	2.91
A15	4	3	4	4	2	4	2	3	3	4	3	4	3.33	0.78	3.02
B1	3	2	4	3	3	3	2	3	3	4	3	4	3.08	0.67	2.79
B2	3	1	4	3	4	3	3	3	3	4	3	3	3.08	0.79	2.65
B3	3	1	3	2	2	4	2	3	2	3	3	3	2.58	0.79	2.84
B4	3	2	3	2	2	4	3	4	2	4	3	4	3.00	0.85	3.01
B5	3	3	3	2	2	4	3	4	2	4	3	3	3.00	0.74	3.1
B6	3	2	3	4	2	3	3	4	2	3	3	3	2.92	0.67	3.05
B7	3	3	3	3	2	3	3	4	2	4	3	4	3.08	0.67	3.05
B8	3	2	4	2	2	4	2	4	3	4	3	3	3.00	0.85	3.09
B9	3	3		2	2	3	3	4	3	4	3	3	3.00	0.63	3.11
B10	3	3	4	2	2	4	3	4	3	4	3	4	3.25	0.75	3.03
B11	4	2	4	3	2	4	3	4	4	4	3	3	3.33	0.78	3.08
B12	0	2	3	2	3	4	3	2	3	4	4	4	2.83	1.19	3
B13	2	3	3	1	3	4	4	4	3	4	3	4	3.17	0.94	2.95
B14	2	2	4	4	2	4	3	4	3	3	3	3	3.08	0.79	2.97
C1	4	3		4	4	4	3	4	4	4	4	4	3.82	0.40	2.94
C2	4	2		3	4	4	3	2	4	4	3	3	3.27	0.79	2.91
C3	3	3	4	3	4	3	3	3	3	3	3	4	3.25	0.45	3.13
C4	3	3	4	2	4	4	3	3	3	3	3	4	3.25	0.62	3.08
C5	3	2	4	3	4	4	3	3	3	3	3	4	3.25	0.62	3.09
C6	3	3	3	3	4	3	3	3	3	3	3	4	3.17	0.39	3.13
C7	3	2	3	3	4	4	3	2	3	3	3	4	3.08	0.67	3.11
C8	3	2	4	2	4	3	2	3	3	3	3	4	3.00	0.74	3.15
C9	3	3	4	2	4	4	2	4	3	3	3	4	3.25	0.75	3.10
C10	3	2	4	2	4	4	2	2	3	3	3	4	3.00	0.85	3.14
C11	4	2	2	1	4	4	3	3	3	3	4	4	3.08	1.00	2.45
C12	4	3	2	1	4	4	3	2	3	3	4	4	3.08	1.00	2.24
C13	4	2	2	1	4	4	2	3	2	3	3	4	2.83	1.03	2.15
C14	4	3	2	1	4	4	2	2	2	3	3	4	2.83	1.03	2.14
C15	4	2	2	1	4	3	3	2	3	3	3	4	2.83	0.94	2.16
C16	4	3	2	1	4	3	3	3	2	3	3	4	2.92	0.90	2.14
C17	4	2		3	4	3	3	3	2	3	3	4	3.09	0.70	2.15
C18	4	3		3	4	3	3	3	2	3	3	3	3.09	0.54	2.1
C19	4	3		4	4	4	3	3	3	3	4	4	3.55	0.52	2.23
C20	4	3		2	4	1	2	2	3	3	3	3	2.73	0.90	2.11
C21	4	3		2	4	4	2	3	3	4	4	4	3.36	0.81	2.15
C22	4	3		2	4	4	3	2	3	4	4	4	3.36	0.81	2.1
C23	4	2		3	4	4	3	4	3	3	4	4	3.45	0.69	2.21
C24	4	2		2	4	4	3	2	3	4	4	4	3.27	0.90	2.18
C25	4	3		2	4	4	2	3	3	4	4	3	3.27	0.79	2.14
C26	4	3		2	4	4	3	2	3	4	4	3	3.27	0.79	2.10
C27	4	2	2	2	4	2	2	2	3	4	4	3	2.83	0.94	2.11
C28	4	2		2	4	4	2	2	3	4	4	4	3.18	0.98	2.15
C29	4	2	3	2	4	4	3	4	4	4	4	3	3.42	0.79	2.27

# Appendix K Cont..

ITEM	PANEL MEMBER												MEAN	SD	MEAN SI
	1	2	3	4	5	6	7	8	9	10	11	12			
C30	4	2	3	2	4	4	3	4	4	4	4	3	3.42	0.79	2.25
C31	4	2	3	2	4	4	2	4	4	4	4	4	3.42	0.90	2.32
C32	4	3	3	2	4	4	2	2	4	4	4	3	3.25	0.87	2.32
C33	4	4	3	2	4	4	3	3	3	3	4	4	3.45	0.69	2.47
C34	4	2	3	0	4	2	2	2	2	3	3	2	2.42	1.08	2.56
C35	4	2	2	0	4	2	2	2	2	3	3	2	2.33	1.07	2.64
C36	4	2	3	0	4	3	3	2	3	3	3	2	2.67	1.07	2.77
C37	4	2	3	2	4	3	2	2	3	3	4	3	2.92	0.79	2.84
C38	4	3	4	3	4	4	3	4	3	4	4	4	3.67	0.49	2.97
C39	4	3	3	3	4	4	2	2	2	4	4	4	3.25	0.87	3.04
D1	2	4	4	4	4	4	3	3	3	4	4	4	3.58	0.67	3.21
D2	3	3	4	3	4	4	2	3	3	4	4	3	3.33	0.65	3.17
D3	2	3	4	2	4	1	2	3	3	4	3	3	2.83	0.94	3.12
ADDITIONAL ITEMS – ROUND ONE															
A11	4	2	3	3	3	2	3	4	2	2	3	3	2.82	0.75	
A12	3	2	4	4	3	2	3	4	2	2	3	3	2.82	0.75	
A13	3	2	4	4	3	1	3	4	1	4	4	3	3.00	1.13	
A14	3	1	3	4	3	3	2	3	1	4	3	3	2.75	0.97	
A15	3	2	4	1	4	4	2	3	4	4	2	3	2.91	1.04	
A16	0	0	0	0	0	0	2	2	0	0	0	0	0.36	0.81	
A17	3	2	3	3	2	4	3	4	2	2	3	3	2.82	0.75	
A18	3	2	2	3	4	3	3	4	2	4	3	3	3.00	0.77	
A19	3	2	3	3	3	3	2	3	4	4	3	2	2.91	0.70	
ADDITIONAL ITEM – ROUND TWO															
A110									4						

Note: Member no. 3 was unable to participate in this round due to official commitments. His responses in round one were retained and included in the summary.

Figures shown in italics indicate the new responses made by members on the disclosure importance of each particular item.

**Appendix L: A Summary of Responses of Round Three**

ITEM	PANEL MEMBER												MEAN	SD	MEAN SI
	1	2	3	4	5	6	7	8	9	10	11	12			
A1	3	2	4	4	3	4	2	4	3	4	4	4	3.42	0.79	2.36
A2	3	3	4	4	3	3	2	3	4	4	4	3	3.33	0.65	2.31
A3	3	3	4	4	3	4	2	4	3	3	3	4	3.33	0.65	2.34
A4	3	4	4	3	2	2	2	3	3	3	4	4	3.08	0.79	1.96
A5	4	2	4	3	2	2	3	4	4	4	3	4	3.25	0.87	2.56
A6	4	2	4	4	2	3	2	3	3	3	3	3	3.00	0.74	2.58
A7	3	2	3	2	2	2	2	3	3	3	3	4	2.67	0.65	2.4
A8	4	2	3	1	3	4	2	3	3	3	3	3	2.83	0.83	2.11
A9	4	2	3	3	3	3	2	3	3	3	3	3	2.92	0.51	2.06
A10	3	3	4	1	2	2	2	4	3	2	3	4	2.75	0.97	2.12
A11	4	2	4	4	2	4	2	2	3	3	3	4	3.08	0.90	2.17
A12	2	1	3	4	2	4	2	4	3	3	3	3	2.83	0.94	2.27
A13	3	2	4	3	2	4	3	3	3	2	3	3	2.92	0.67	2.84
A14	4	2	4	2	2	4	3	3	3	4	3	3	3.08	0.79	2.91
A15	4	3	4	4	2	4	2	3	3	4	3	4	3.33	0.78	3.02
B1	3	2	4	3	3	3	2	3	3	4	3	4	3.08	0.67	2.79
B2	3	1	4	3	4	3	3	3	3	4	3	3	3.08	0.79	2.65
B3	3	1	3	2	2	4	2	3	2	3	3	3	2.58	0.79	2.84
B4	3	2	3	2	2	4	3	4	2	4	3	4	3.00	0.85	3.01
B5	3	3	3	2	2	4	3	4	2	4	3	3	3.00	0.74	3.1
B6	3	2	3	4	2	3	3	4	2	3	3	3	2.92	0.67	3.05
B7	3	3	3	3	2	3	3	4	2	4	3	4	3.08	0.67	3.05
B8	3	2	4	2	2	4	2	4	3	4	3	3	3.00	0.85	3.09
B9	3	3	3	2	2	3	3	4	3	4	3	3	3.00	0.60	3.11
B10	3	3	4	2	2	4	3	4	3	4	3	4	3.25	0.75	3.03
B11	4	2	4	3	2	4	3	4	4	4	3	3	3.33	0.78	3.08
B12	3	2	3	2	3	4	3	2	3	4	4	4	3.00	0.85	3
B13	2	3	3	1	3	4	4	4	3	4	3	4	3.17	0.94	2.95
B14	2	2	4	4	2	4	3	4	3	3	3	3	3.08	0.79	2.97
C1	4	3	4	4	4	4	3	4	4	4	4	4	3.83	0.39	2.94
C2	4	2	4	3	4	4	3	2	4	4	3	3	3.33	0.78	2.91
C3	3	3	4	3	4	3	3	3	3	3	3	4	3.25	0.45	3.13
C4	3	3	4	2	4	4	3	3	3	3	3	4	3.25	0.62	3.08
C5	3	2	4	3	4	4	3	3	3	3	3	4	3.25	0.62	3.09
C6	3	3	3	3	4	3	3	3	3	3	3	4	3.17	0.39	3.13
C7	3	2	3	3	4	4	3	2	3	3	3	4	3.08	0.67	3.11
C8	3	2	4	2	4	3	2	3	3	3	3	4	3.00	0.74	3.15
C9	3	3	4	2	4	4	2	4	3	3	3	4	3.25	0.75	3.10
C10	3	2	4	2	4	4	2	2	3	3	3	4	3.00	0.85	3.14
C11	4	2	2	1	4	4	3	3	3	3	4	4	3.08	1.00	2.45
C12	4	3	2	1	4	4	3	2	3	3	4	4	3.08	1.00	2.24
C13	4	2	2	1	4	4	2	3	2	3	3	4	2.83	1.03	2.15
C14	4	3	2	1	4	4	2	2	2	3	3	4	2.83	1.03	2.14
C15	4	2	2	1	4	3	3	3	2	3	3	4	2.83	0.94	2.16
C16	4	3	2	1	4	3	3	3	2	3	3	4	2.92	0.90	2.14
C17	4	2	2	3	4	3	3	3	2	3	3	4	3.00	0.74	2.15
C18	4	3	2	3	4	3	3	3	2	3	3	3	3.00	0.60	2.1
C19	4	3	4	4	4	4	3	3	3	3	4	4	3.58	0.51	2.23
C20	4	3	3	2	4	1	2	2	3	3	3	3	2.75	0.87	2.11
C21	4	3	3	2	4	4	2	3	3	4	4	4	3.33	0.78	2.15
C22	4	3	2	2	4	4	3	2	3	4	4	4	3.25	0.87	2.1
C23	4	2	4	3	4	4	3	4	3	4	4	4	3.50	0.67	2.21
C24	4	2	4	2	4	4	3	2	3	4	4	4	3.33	0.89	2.18
C25	4	3	3	2	4	4	2	3	3	4	4	3	3.25	0.75	2.14
C26	4	3	3	2	4	4	3	2	3	4	4	3	3.25	0.75	2.10

# Appendix L Cont..

ITEM	PANEL MEMBER												MEAN	SD	MEAN SI
	1	2	3	4	5	6	7	8	9	10	11	12			
C27	4	2	2	2	4	2	2	2	3	4	4	3	<i>2.83</i>	0.94	2.11
C28	4	2	4	2	4	4	2	2	3	4	4	4	<i>3.25</i>	0.97	2.15
C29	4	2	3	2	4	4	3	4	4	4	4	3	<i>3.42</i>	0.79	2.27
C30	4	2	3	2	4	4	3	4	4	4	4	3	<i>3.42</i>	0.79	2.25
C31	4	2	3	2	4	4	2	4	4	4	4	4	<i>3.42</i>	0.9	2.32
C32	4	3	3	2	4	4	2	2	4	4	4	3	<i>3.25</i>	0.87	2.32
C33	4	4	4	2	4	4	3	3	3	3	4	4	<i>3.50</i>	0.67	2.47
C34	4	2	3	0	4	2	2	2	2	3	3	2	<i>2.42</i>	1.08	2.56
C35	4	2	2	0	4	2	2	2	2	3	3	2	<i>2.33</i>	1.07	2.64
C36	4	2	3	0	4	3	3	2	3	3	3	2	<i>2.67</i>	1.07	2.77
C37	4	2	3	2	4	3	2	2	3	3	4	3	<i>2.92</i>	0.79	2.84
C38	4	3	4	3	4	4	3	4	3	4	4	4	<i>3.67</i>	0.49	2.97
C39	4	3	3	3	4	4	2	2	2	4	4	4	<i>3.25</i>	0.87	3.04
D1	2	4	4	4	4	4	3	3	3	4	4	4	<i>3.58</i>	0.67	3.21
D2	3	3	4	3	4	4	2	3	3	4	4	3	<i>3.33</i>	0.65	3.17
D3	2	3	4	2	4	1	2	3	3	4	3	3	<i>2.83</i>	0.94	3.12
ADDITIONAL ITEMS – ROUNDS ONE AND TWO															
A11	4	2	4	3	3	2	3	4	2	2	3	3	<i>2.92</i>	0.79	
A12	3	2	3	4	3	2	3	4	2	2	3	3	<i>2.83</i>	0.72	
A13	3	2	4	4	3	2	3	4	2	4	4	3	<i>3.17</i>	0.83	
A14	3	1	3	4	3	3	2	3	2	4	3	3	<i>2.83</i>	0.83	
A15	3	2	4	4	1	4	2	3	4	4	2	3	<i>3.00</i>	1.04	
A16	0	0	2	0	0	0	2	2	0	0	0	0	<i>0.50</i>	0.90	
A17	3	2	4	3	2	4	3	4	2	2	3	3	<i>2.92</i>	0.79	
A18	3	2	3	2	3	4	3	4	2	4	3	3	<i>3.00</i>	0.74	
A19	3	2	4	3	3	3	3	3	4	4	3	2	<i>3.08</i>	0.67	
A110	3	2	4	3	3	3	3	3	2	4	3	3	<i>3.00</i>	0.60	

Note: Figures shown in italics indicate the new responses made by members on the disclosure importance of each particular item.

Member no. 3 continued his participation by reconsidering his previous responses and giving scores for items that had been missed out in round one.

## Appendix M: Means and Standard Deviations of Individual Items in Delphi Rounds One, Two and Three

ITEM		Round 1		Round 2		Round 3	
		MEAN	SD	MEAN	SD	MEAN	SD
<b>Overview and Operational</b>							
A1	Statement of objectives	3.42	0.79	3.42	0.79	3.42	0.79
A2	Mayor's/president's report	3.00	1.13	3.33	0.65	3.33	0.65
A3	Review of operations	3.33	0.65	3.33	0.65	3.33	0.65
A4	Organisation structure	2.91	0.94	3.08	0.79	3.08	0.79
A5	Internal control	3.17	0.94	3.25	0.87	3.25	0.87
A6	Environmental management	2.83	0.83	3.00	0.74	3.00	0.74
A7	Personnel	2.58	0.67	2.67	0.65	2.67	0.65
A8	Occupational health & safety	2.58	1.08	2.67	0.98	2.83	0.83
A9	Working environment	2.92	0.51	2.92	0.51	2.92	0.51
A10	Training programmes for staff	2.58	1.08	2.75	0.97	2.75	0.97
A11	Summary facts and figures	3.00	0.95	3.08	0.90	3.08	0.90
A12	Acknowledgement/award received from state and federal government	2.82	0.98	2.83	0.94	2.83	0.94
A13	Challenges in undertaking services/activities	2.33	1.23	2.67	0.98	2.92	0.67
A14	Factors contribute to the current status of performance achievement	2.75	1.29	2.92	1.00	3.08	0.79
A15	Efforts in generating more revenue	3.33	0.78	3.33	0.78	3.33	0.78
<b>Non-Financial Performance</b>							
B1	Goals and objectives of services/activities	3.00	0.74	3.08	0.67	3.08	0.67
B2	Non-financial performance targets	2.83	1.19	3.08	0.79	3.08	0.79
B3	Input measures	2.58	0.79	2.58	0.79	2.58	0.79
B4	Output measures	3.00	0.85	3.00	0.85	3.00	0.85
B5	Impact measures	3.00	0.74	3.00	0.74	3.00	0.74
B6	Efficiency measures	2.67	0.78	2.92	0.67	2.92	0.67
B7	Effectiveness measures	2.92	0.90	3.08	0.67	3.08	0.67
B8	Customer satisfaction measures	3.00	0.85	3.00	0.85	3.00	0.85
B9	Productivity measures	2.80	0.92	3.00	0.63	3.00	0.60
B10	Comparison between actual and target achievement	3.25	0.75	3.25	0.75	3.25	0.75
B11	Comparison between current and previous year's achievement	3.33	0.78	3.33	0.78	3.33	0.78
B12	Report on the use of government grants	2.83	1.19	2.83	1.19	3.00	0.85
B13	Performance of contractors responsible for providing contracted services	3.08	1.16	3.17	0.94	3.17	0.94
B14	Achievement of specific programmes as ordered by state/federal government	3.08	0.79	3.08	0.79	3.08	0.79

**Appendix M Cont..**

ITEM		Round 1		Round 2		Round 3	
		MEAN	SD	MEAN	SD	MEAN	SD
<b>Financial</b>							
<b>Statement of Revenue and Expenditure</b>							
C1	Revenue according to activities or services rendered	3.82	0.40	3.82	0.40	3.83	0.39
C2	Revenue according to source of revenue	3.27	0.79	3.27	0.79	3.33	0.78
C3	Total revenue	3.27	0.47	3.25	0.45	3.25	0.45
C4	Gross expenditure according to service	3.08	0.90	3.25	0.62	3.25	0.62
C5	Net expenditure according to service	3.25	0.62	3.25	0.62	3.25	0.62
C6	Expenditure classified by nature or function	3.17	0.39	3.17	0.39	3.17	0.39
C7	Total expenditure	3.08	0.67	3.08	0.67	3.08	0.67
C8	Total excess/surplus	2.92	0.79	3.00	0.74	3.00	0.74
<b>Balance Sheet</b>							
C9	Operational assets at cost	3.25	0.75	3.25	0.75	3.25	0.75
C10	Operational assets at market value	3.00	0.85	3.00	0.85	3.00	0.85
C11	Non-operational assets at cost	3.00	1.13	3.08	1.00	3.08	1.00
C12	Non-operational assets at market value	2.92	1.16	3.08	1.00	3.08	1.00
C13	Community assets at cost	2.58	1.24	2.83	1.03	2.83	1.03
C14	Community assets at market value	2.83	1.03	2.83	1.03	2.83	1.03
C15	Infrastructure assets at cost	2.83	0.94	2.83	0.94	2.83	0.94
C16	Infrastructure assets at market value	2.92	0.90	2.92	0.90	2.92	0.90
C17	Total fixed assets	3.09	0.70	3.09	0.70	3.00	0.74
C18	Deferred charges	3.09	0.54	3.09	0.54	3.00	0.60
C19	Long-term investments	3.36	0.92	3.55	0.52	3.58	0.51
C20	Long-term debtors	2.73	0.90	2.73	0.90	2.75	0.87
C21	Current assets	3.18	1.08	3.36	0.81	3.33	0.78
C22	Current liabilities	3.18	1.08	3.36	0.81	3.25	0.87
C23	Long-term borrowings	3.45	0.69	3.45	0.69	3.50	0.67
C24	Deferred liabilities	3.27	0.90	3.27	0.90	3.33	0.89
C25	Deferred credits – government grants	3.27	0.79	3.27	0.79	3.25	0.75
C26	Reserves	3.27	0.79	3.27	0.79	3.25	0.75
<b>Cash Flow Statement</b>							
C27	Operating cash flows	2.83	0.94	2.83	0.94	2.83	0.94
C28	Investing cash flows	2.82	1.25	3.18	0.98	3.25	0.97
C29	Financing cash flows	3.45	0.82	3.42	0.79	3.42	0.79
C30	Year end cash and cash equivalents	3.33	0.98	3.42	0.79	3.42	0.79
C31	Auditor's report	3.42	0.90	3.42	0.90	3.42	0.90
C32	Financial review	3.25	0.87	3.25	0.87	3.25	0.87
C33	Accounting policies	3.45	0.69	3.45	0.69	3.50	0.67
C34	Revenue to number of staff	2.42	1.08	2.42	1.08	2.42	1.08

# Appendix M Cont..

ITEM		Round 1		Round 2		Round 3	
		MEAN	SD	MEAN	SD	MEAN	SD
C35	Total asset to number of staff	2.33	1.07	2.33	1.07	2.33	1.07
C36	Revenue to cost of service	2.67	1.07	2.67	1.07	2.67	1.07
C37	Return on assets	2.92	0.79	2.92	0.79	2.92	0.79
C38	Actual to budget comparison	3.67	0.49	3.67	0.49	3.67	0.49
C39	Information about cost of service/activity	3.25	0.87	3.25	0.87	3.25	0.87
<b>Future-Related Information</b>							
D1	Future plans	3.58	0.67	3.58	0.67	3.58	0.67
D2	Future performance targets	3.33	0.65	3.33	0.65	3.33	0.65
D3	Information pertaining to future capital improvements	2.83	0.94	2.83	0.94	2.83	0.94
<b>Additional Items (Identified by Delphi Panel)</b>							
A11	Auditor general department's rating of financial management			2.82	0.75	2.92	0.79
A12	Role and responsibility of councillor			2.82	0.75	2.83	0.72
A13	Public complaints that have been solved			3.00	1.13	3.17	0.83
A14	Activity/programme that involved community participation			2.75	0.97	2.83	0.83
A15	Size of area of administration			2.91	1.04	3.00	1.04
A16	Scope of authority of contractor			0.36	0.81	0.50	0.90
A17	Scope of authority of LA and other relevant agencies			2.82	0.75	2.92	0.79
A18	Contracted-out service/activity			3.00	0.77	3.00	0.74
A19	Assessment tax rates			2.91	0.70	3.08	0.67
A110	Improvement programme of service delivery system					3.00	0.60



## Appendix N: Multiple-Information Items and Their Quality Criteria

Item	Quality Criteria	Source of Reference of Quality Criteria
<b>A. Overview and Operational</b>		
Statement of objectives	<p>Reference to principal activities/services.</p> <p>Inclusion of mission, goals and performance targets in specific, concise, understandable and realistic terminology.</p> <p>Measurable/quantitative dimensions with a given time-frame.</p> <p>Discussion of involvement in establishing the goals and objectives (e.g. involvement of citizens, council members, management, employees).</p> <p>Separate titled section.</p>	<p><b>Prior studies</b> (for example: Coy et al., 2001; Hooks et al. 2001; Ryan et al. 2002b; Nelson et al., 2003).</p> <p><b>Professional recommendations</b> (GASB (2003): Reporting performance information, OAG of the UK (2000).</p>
Mayor's/president's report	<p>Statement specifying the purpose and scope of the report.</p> <p>Reference to a broad spectrum of services/activities.</p> <p>Reference to a broad spectrum of achievements.</p> <p>Set in context of social, economic, and political environment.</p> <p>Discussion of <u>challenges in achieving the mission, goals and objectives.</u></p>	<p>Ryan et al. (2002b).</p> <p>GASB, (2003).</p> <p>●AG of New Zealand (2002).</p> <p>Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).</p>
Organisation structure	<p>●organisational and decision structure.</p> <p>Composition of management.</p> <p>Composition of council.</p> <p>Contact information</p> <p>Linkages from council to management.</p>	Ryan et al. (2002b).
Role and responsibility of councillors	Specification of the role and responsibility.	Suggestion by the Delphi member.
Area of administration	Specification of the area of administration.	Suggestion by the Delphi member.

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Scope of authority of local authorities and relevant agencies	Description of the scope of authority.	Suggestion by the Delphi member.
Internal control	Reference to specific internal control programme/system. Description of the operation of each internal control programme/system. Review of control systems.	Ryan et al. (2002b).
Environmental management	Environmental policies or organisation concern for the environment. Reference to statutory requirement/s. Description of environmental protection programme/s undertaken.	Ryan et al. (2002b).
Personnel	Number of employees. Classification of personnel of each department by job type. Previous year/s comparison.	Ryan et al. (2002b).
Occupational health & safety	Description of programme/s for occupational health and safety. Safety record. Previous year/s comparison.	Ryan et al. (2002b).
Working environment	Specification of appropriate groups (e.g. by gender/ethnic/employment category) Level of positions for each group. Previous year/s comparison.	Ryan et al. (2002b).
Training programmes for staff	Description of the programme/s. Description of the output of the programme/s. Description of the outcomes of the programme/s.	Suggestion by the Delphi member.

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Review of operations	Explanation of each service/activity undertaken. Reference to a significant output of each service/activity. Reference to a significant impact of each service/activity on the community/clients.	OAG of the UK (2000). Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).
Summary facts and figures	Reference to each service/activity achievement. At least three year trends. Brief discussion of trends. Separate titled section Use of illustrations.	Ryan et al. (2002b).
Challenges in undertaking services/activities	Specification of the challenges.	Suggestion by the Delphi member. Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).
Factors that influenced current status of performance achievement	Description of the factors.	Suggestion by the Delphi member. Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).
Auditor general department's rating of financial management	Specification of the rating allocated.	Suggestion by the Delphi member.
Public complaints that have been resolved	Specification of the complaints.	Suggestion by the Delphi member. Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Acknowledgement/award received from state/federal government	Specification of the acknowledgement/award.	Suggestion by the Delphi member.
Efforts in generating more revenue	Description of the efforts.	Suggestion by the Delphi member.
Activity/programme that involved community participation	Description of the activity/programme.	Suggestion by the Delphi member.
<b>B. Non-Financial Performance</b>		
Goals and objectives of services/activities	Statement of the goals/objectives by service/activity undertaken. Description of major strategies employed to achieve the goals and objectives. Discussion of risks/uncertainties faced and opportunities utilised in achieving the goals and objectives.	OAG of New Zealand (2002). CCAF-FCVI (2002). Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).
Non-financial performance targets	Description by service/activity. Reference to objectives for key programmes/activities. Statement of the capability in meeting the performance targets.	Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia. Treasury Circular No. 4/2007 (Ministry of Finance, Malaysia).
Input measures	Provide a basis for assessing the results for key, major or critical programmes and services. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	Ryan et al. (2002b). CCAF-FCVI (2002). GASB (2003). Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Output measures	<p>Provide a basis for assessing the results for key, major or critical programmes and services.</p> <p>An analysis on performance targets achievement by service/activity.</p> <p>Comparing performance with objectives for key programmes/activities.</p> <p>Meeting performance indicators derived from objectives.</p> <p>Some indication of benchmarking.</p>	<p>Ryan, et al. (2002b).</p> <p>CCAF-FCVI (2002).</p> <p>GASB (2003).</p> <p>Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.</p>
Impact measures	<p>Provide a basis for assessing the results for key, major or critical programmes and services.</p> <p>An analysis on performance targets achievement by service/activity.</p> <p>Comparing performance with objectives for key programmes/activities.</p> <p>Meeting performance indicators derived from objectives.</p> <p>Some indication of benchmarking.</p>	<p>Ryan et al. (2002b).</p> <p>CCAF-FCVI (2002).</p> <p>GASB, 2003.</p> <p>Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.</p>
Efficiency measures	<p>Provide a basis for assessing the results for key, major or critical programmes and services.</p> <p>An analysis on performance targets achievement by service/activity.</p> <p>Comparing performance with objectives for key programmes/activities.</p> <p>Meeting performance indicators derived from objectives.</p> <p>Some indication of benchmarking.</p>	<p>Ryan et al. (2002b).</p> <p>CCAF-FCVI (2002).</p> <p>GASB (2003).</p> <p>Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.</p>
Effectiveness measures	<p>Provide a basis for assessing the results for key, major or critical programmes and services.</p> <p>An analysis on performance targets achievement by service/activity.</p> <p>Comparing performance with objectives for key programmes/activities.</p> <p>Meeting performance indicators derived from objectives.</p> <p>Some indication of benchmarking.</p>	<p>Ryan et al. (2002b).</p> <p>CCAF-FCVI (2002).</p> <p>GASB (2003).</p> <p>Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.</p>

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Customer satisfaction measures	Provide a basis for assessing the results for key, major or critical programmes and services. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.
Productivity measures	Provide a basis for assessing the results for key, major or critical programmes and services. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.
Comparison between actual and target achievement	Comparison by service/activity. Description of identified factors that have had a significant effect on achievement. Suggestions for performance improvement.	GASB (2003). CCAF-FCVI (2002). OAG of the UK (2000). OAG of New Zealand (2002). Treasury Circular No. 4/2007. (Ministry of Finance, Malaysia).
Comparison between current and previous year's achievement	Comparison by service/activity. Comparison for at least three years. Description of identified factors that have had a significant effect on the trends of the achievement.	GASB (2003). OAG UK (2000). Treasury Circular No. 4/2007. (Ministry of Finance, Malaysia).
Report on the use of government grants	Specification of the use of the grants.	Suggestion by the Delphi member. Treasury Circular No. 4/2007 (Ministry of Finance, Malaysia).

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Performance of contractor responsible for providing contracted services	Specification of the contractors and their performance.	Suggestion by the Delphi member.
Achievement of specific programmes as ordered by state/federal government	Specification of the programme and its achievement.	Suggestion by the Delphi member.
Contracted-out service/activity	Specification of the service/activity involved.	Suggestion by the Delphi member.
Improvement programme of service delivery system	Description of the improvement programme.	Suggestion by the Delphi member.
<b>C. Financial</b>		
<i>Statement of revenue and expenditure</i>	Previous year comparison.	Ryan et al. (2002b). Gore (2004). Christiaens and Van Peteghem, (2007).
<i>Balance sheet</i>	Previous year comparison.	Ryan et al. (2002b). Gore (2004). Christiaens and Van Petegham, (2007).
<i>Cash flow statements</i>	Previous year comparison.	Ryan et al. (2002b). Wallace et al. (1999).
<i>Financial information outside financial statements:</i>		
Auditor's report	Inclusion of the auditor's report.	Public Administration Development Circular, No. 2 (2005) of the Prime Minister Department of Malaysia.
Financial review	Financial review for at least two year comparison. Review of revenues for at least three year comparison. Review of expenses for at least three year comparison. Review of other significant financial issues for at least three year comparison. Explanation of trends.	Ryan et al.(2002b). Treasury Circular No.4/2007 (Ministry of Finance, Malaysia).
Accounting policies	Description of accounting policies, showing basis of presentation.	Ryan et al. (2002b).

## Appendix N Cont..

Item	Quality Criteria	Source of Reference of Quality Criteria
Actual to budget comparison	Actual and budget operating revenues with variances, line by line. Actual and budget operating expenditures with variances, line by line. Explanation of significant differences.	Treasury Circular No. 4/2007 (Ministry of Finance, Malaysia). Ryan et al. (2002b).
Information about cost of service/activity	Disclosure by service/programme undertaken. Explanations of significant difference between actual and budget. Previous year/s comparison.	GASB (2003). CCAF-FCVI (2002).
Assessment tax rates	Disclosure of rates by type of property. Previous year/s rates comparison. Explanations of decrease/increase of rates.	Suggestion by the Delphi member
<b>D. Future-Related Information</b>		
Future plans	Reference to major service/activity.	Treasury Circular No. 4/2007 (Ministry of Finance, Malaysia). OAG of New Zealand (2002).
Future performance targets	Specification of the performance targets. Description of the assessment of risks to be faced in working towards performance targets. Capacity/ability of the organisation to achieve performance targets.	Treasury Circular No.4/2007 (Ministry of Finance, Malaysia). OAG of New Zealand (2002).
Information pertaining to future capital improvements	Specification of future capital improvement plan/s.	Treasury Circular No. 4/2007 (Ministry of Finance, Malaysia). OAG of New Zealand (2002).



## Appendix O: Disclosure Index

Item	Quality Criteria	MPS	WI (0-4)
<b>Overview and Operational</b>			
Statement of objectives	Reference to principal activities/services. Inclusion of mission, goals and performance targets in specific, concise, understandable and realistic terminology. Measurable/quantitative dimensions with a given time-frame. Discussion of involvement in establishing the goals and objectives (e.g. involvement of citizens, council members, management, employees). Separate titled section.	5	3.42
Mayor's/president's report	Statement specifying the purpose and scope of the report. Reference to a broad spectrum of services/activities. Reference to a broad spectrum of achievements. Set in context of social, economic, and political environment. Discussion of challenges in achieving the mission, goals and objectives.	5	3.33
Organisation structure	Organisational and decision structure. Composition of management. Composition of council. Contact information. Linkages from council to management.	5	3.08
Role and responsibility of councillor	Specification of the role and responsibility.	1	2.83
Area of administration	Specification of the area.	1	3.00
Scope of authority of LA and other relevant agencies	Description of the scope of authority.	1	2.92
Internal control	Reference to specific internal control programme/system. Description of the operation of each internal control programme/system. Review of control system.	3	3.25
Environmental management	Environmental policies or organisation concern for the environment. Reference to statutory requirement/s. Description of the environmental programme/s undertaken.	3	3.00
Personnel	Number of employees. Classification of personnel of each department by job type. Previous year/s comparison.	3	2.67
Occupational health & safety	Description of programme/s for occupational health and safety. Safety record. Previous year/s comparison.	3	2.83

## Appendix O Cont..

Item	Quality Criteria	MPS	WI (0-4)
Working environment	Specification of appropriate groups (e.g. by gender/ethnic/ employment category). Level of position for each group. Previous year/s comparison. Use of illustrations.	3	2.92
Training programmes for staff	Description of the programmes. Description of the output of the programme. Description of the outcomes of the programmes.	3	2.75
Review of operations	Explanation of each service/activity undertaken. Reference to a significant output of each activity/service. Reference to a significant impact of each service/activity on the community/clients.	3	3.33
Summary facts and figures	Reference to each service/activity achievement. At least three-year trends. Brief discussion of trends. Separate title section. Use of illustration.	5	3.08
Challenges in undertaking services/activities	Specification of the challenges.	1	2.92
Factors that influenced the current status of performance achievement	Description of the factors.	1	3.08
Auditor General Department's rating of financial management	Specification of the rating allocated.	1	2.92
Public complaints that have been resolved	Specification of the complaints.	1	3.17
Acknowledgement/award received from State and Federal Government	Specification of the acknowledgement/award.	1	2.83
Efforts in generating more revenue	Description of the efforts.	1	3.33
Activity/programme that involved community participation	Description of the activity/programme.	1	2.83
<b>Non-Financial Performance</b>			
Goals and objectives of services/activities	Statement of the goals/objectives by service/activity undertaken. Description of major strategies employed to achieve the goals and objectives. Description of risks/uncertainties faced and opportunities utilised in achieving the goals and objectives.	3	3.08

## Appendix O Cont..

Item	Quality Criteria	MPS	WI (0-4)
Non-financial performance targets	Description by service/activity. Reference to objectives for key programmes/activities. Statement of the capability in meeting the performance targets.	3	3.08
Input measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	2.58
Output measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	3.00
Impact measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	3.00
Efficiency measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	2.92
Effectiveness measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	3.08

## Appendix O Cont..

Item	Quality Criteria	MPS	WI (0-4)
Customer satisfaction measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	3.00
Productivity measures	Provide a basis for assessing the results for key, major or critical programmes and activities. An analysis on performance targets achievement by service/activity. Comparing performance with objectives for key programmes/activities. Meeting performance indicators derived from objectives. Some indication of benchmarking.	5	3.00
Comparison between actual and target achievement	Comparison by service/activity. Comparison for at least three years. Suggestions for performance improvement.	3	3.25
Comparison between current and previous year's achievement	Comparison by service/activity. Comparison for at least three years. Description of identified factors that have had a significant effect on the trends of the achievement.	3	3.33
Report on the use of government grants	Specification of the use of the grants.	1	3.00
Performance of contractors responsible for providing contracted services	Specification of the contractors' performance.	1	3.17
Achievement of specific programmes as ordered by state/federal government	Specification of the programme and its achievement.	1	3.08
Improvement programme of service delivery system	Description of the improvement programme.	1	3.00
Contracted-out service/activity	Specification of the service, activity and the agency/agencies involved.	1	3.00
<b>Financial</b>			
<b>Statement of Revenue and Expenditure (SORE):</b>	Previous year comparison.	1	3.16*
Revenue according to activities or services rendered	n/a	1	3.25
Revenue according to source of revenue	n/a	1	3.25
Total revenue	n/a	1	3.25
Gross expenditure according to service	n/a	1	3.17
Net expenditure according to service	n/a	1	3.08

## Appendix O Cont..

Item	Quality Criteria	MPS	WI (0-4)
Expenditure classified by nature or function	n/a	1	3.00
Total expenditure	n/a	1	3.25
Total excess/surplus	n/a	1	3.00
<b>Balance sheet (BS):</b>	Previous year comparison.	1	3.11*
Operational assets at cost	n/a	1	3.08
Operational assets at market value	n/a	1	3.08
Non-operational assets at cost	n/a	1	2.83
Non-operational assets at market value	n/a	1	2.83
Community assets at cost	n/a	1	2.83
Community assets at market value	n/a	1	2.92
Infrastructure assets at cost	n/a	1	3.00
Infrastructure assets at market value	n/a	1	3.00
Total fixed assets	n/a	1	3.58
Deferred charges	n/a	1	2.75
Long-term investments	n/a	1	3.33
Long-term debtors	n/a	1	3.25
Current assets	n/a	1	3.50
Current liabilities	n/a	1	3.33
Long-term borrowings	n/a	1	3.25
Deferred liabilities	n/a	1	3.25
Deferred credits – government grants	n/a	1	2.83
Reserves	n/a	1	3.25
<b>Cash flows statement (CF):</b>	Previous year comparison.	1	3.38*
Operating cash flows	n/a	1	3.42
Investing cash flows	n/a	1	3.42
Financing cash flows	n/a	1	3.42
Year end cash and cash equivalents	n/a	1	3.25
<b>Financial information outside financial statements</b>			
Auditor's report	Inclusion of the auditor's report.	1	3.83
Financial review	Financial review for at least two-year comparison. Review of revenues for at least three-year comparison. Review of expenses for at least three-year comparison. Review of other significant financial issues for at least three year comparison. Explanation of trends.	5	3.33
Accounting policies	Description of accounting policies, showing basis of presentation.	1	3.50
Revenue to number of staff	n/a	1	2.42
Total asset to number of staff	n/a	1	2.33
Revenue to cost of service	n/a	1	2.67
Return on assets	n/a	1	2.92

## Appendix O Cont..

Item	Quality Criteria	MPS	WI (0-4)
Actual to budget comparison	Actual and budget operating revenues with variances, line by line. Actual and budget operating expenditures with variances, line by line. Explanation of significant differences.	3	3.67
Information about cost of service/activity	Disclosure by service/programme undertaken. Explanation of significant difference between actual and budget. Previous year comparison.	3	3.25
Assessment tax rates	Disclosure of rates by type of property. Previous year/s rates comparison. Explanations of decrease/increase of rates.	3	3.08
<b>Future-Related Information</b>			
Future plans	Reference to major service/activity.	1	3.58
Future performance targets	Specification of the performance targets. Description of the assessment of risks to be faced in working towards performance targets. Capacity/ability of the organisation to achieve performance targets.	3	3.33
Information pertaining to future capital improvements	Specification of future capital improvement plan/s.	1	2.83

Note: MPS denotes maximum possible score for extent and quality. WI denotes weightings for importance.

\*WI for items SORE, BS and CF are based on the mean of the WI of all items in the particular category.

## Appendix P (i)

### Examples of Quality Criteria Assessment for ‘Statement of Objectives’

#### *Local Authority 2 (LA2): Statement of Objectives:*

- To develop a dynamic city council in order to enhance the quality of life and economic status of the community, consistent with the National Economics and Development Policy.
- To provide cleaning and maintenance services as follows:
  - Waste collection every three days.
  - Restoration of streams every ten days.
  - Lawn mowing every two weeks.
- To process building plan approvals within the specific time frame, provided that completed documents have been submitted.
  - Housing/industrial projects – one week.
  - House renovations – eight weeks.

#### *Local Authority 13 (LA13): Statement of Objectives:*

- To develop [LA 13] as a premier, promising and peaceful growth centre.
- To provide efficient, adequate and friendly high quality services.

*Source: Annual reports of LA2 (2005) and LA13 (2005)*

#### **Assessment:**

Quality Criteria  <b>Maximum Possible Score: 5</b>	1. Reference to principal activities/services. 2. Inclusion of mission, goals and performance targets in specific, concise, understandable and realistic terminology. 3. Measurable/quantitative dimensions with a given time frame. 4. Discussion of involvement in establishing the goals and objectives (for example, involvement of citizens, council members, management, employees). 5. Separate titled section.
LA2 Assessment <b>Score: 4 of 5 (4/5)</b>	No discussion of involvement of any parties in establishing the goals and objectives. All other criteria are met.
LA13 Assessment <b>Score: 1 of 5 (1/5)</b>	Although included in a separate, titled section, the information on objectives, mission and performance targets were insufficient to be able to assess the achievement, as quantitative dimensions were not included. No discussion of involvement of any parties in establishing the goals and objectives.

**Appendix P (ii)**

**Examples of Quality Criteria Assessment for ‘Non-Financial Performance Targets’**

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***Local Authority 13 (LA13): Non-Financial Performance Targets:***

Planning and Development Activity:

1. Approval of building plans. Target: 280 applications.
2. Approval of certificates of fitness. Target: 190 applications.

The performance of the building unit (in 2005) has achieved the 94 percent level. This has been due to a shortage of three technical staff. Other activities, such as planning, have achieved 100 percent. Nevertheless, in order to improve performance achievement of the unit in 2006, the shortage of staff and computers needs to be resolved without delay.

***Local Authority 5 (LA5): Non-Financial Performance Targets:***

Planning and Development Activity: Development of *Area 1*.

The planning for *Area 1* is a detailed plan and focuses on development. *Area 1* will be developed as a sustainable and well-planned township. Four areas, which include *village 1*, *village 2*, *village 3* and *village 4*, are the villages in *Area 1*.

*Source: Annual reports of LA13 (2005) and LA5 (2005)*

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**Assessment:**

Quality Criteria	1. Description by service/activity. 2. Reference to objectives. 3. Statement of capability to meet performance targets.
<b><i>Maximum Possible Score: 3</i></b>	
<b><i>LA13 Assessment Score: 3 of 3 (3/3)</i></b>	Targets were described according to activity. There was reference to objectives of the activity/service, such as the objectives related to approvals of building plans and certificates of fitness. The capability of the particular unit to meet the targets was described.
<b><i>LA5 Assessment Score: 2 of 3 (2/3)</i></b>	No information regarding the capability to meet the targets.

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Note: The differences in allocated scores were not due to the differences in the number of objectives or non-financial performance targets presented in the annual reports. Instead, the score was allocated based on the disclosure of the pre-determined quality criteria of the objectives or the non-financial performance targets. It was found that each local authority stated all of its objectives or non-financial targets in a similar way. For example, if an objective was disclosed with two quality criteria, the same two criteria were also provided with the other objectives. Therefore, the local authority that disclosed two objectives, each with two quality criteria and the other local authority that disclosed four objectives each with two quality criteria were both allocated the same score of 2/5.



**Appendix P (iii): Annual Report Scoring Model: Item-by-Item, Category and Final - Results of a Local Authority in 2003**

Item	Un-Weighted (AS)	(MPS)	(WI)	Weighted: Item Score	Weighted: Category and Final Score		
				Actual: (AS/MPS) x WI	Actual: (AS x WI)	Max: (MPS x WI)	%
Overview and Operational (OO)							
A1	3	5	3.42	2.05	10.26	17.10	60.0
A2	0	5	3.33	0.00	0.00	16.65	0.0
A3	5	5	3.08	3.08	15.40	15.40	100.0
A4	0	1	2.83	0.00	0.00	2.83	0.0
A5	1	1	3	3.00	3.00	3.00	100.0
A6	0	1	2.92	0.00	0.00	2.92	0.0
A7	3	3	3.25	3.25	9.75	9.75	100.0
A8	0	3	3	0.00	0.00	9.00	0.0
A9	0	3	2.67	0.00	0.00	8.01	0.0
A10	0	3	2.83	0.00	0.00	8.49	0.0
A11	0	3	2.92	0.00	0.00	8.76	0.0
A12	2	3	2.75	1.83	5.50	8.25	66.7
A13	2	3	3.33	2.22	6.66	9.99	66.7
A14	3	5	3.08	1.85	9.24	15.40	60.0
A15	1	1	2.92	2.92	2.92	2.92	100.0
A16	1	1	3.08	3.08	3.08	3.08	100.0
A17	n/a	n/a	2.92	n/a	n/a	n/a	n/a
A18	1	1	3.17	3.17	3.17	3.17	100.0
A19	1	1	2.83	2.83	2.83	2.83	100.0
A20	1	1	3.33	3.33	3.33	3.33	100.0
A21	1	1	2.83	2.83	2.83	2.83	100.0
Score	25.0	50.0			78.0	153.7	50.7
Non-Financial Performance (NF)							
B22	1	3	3.08	1.03	3.08	9.24	33.3
B23	0	3	3.08	0.00	0.00	9.24	0.0
B24	1	5	2.58	0.52	2.58	12.90	20.0
B25	1	5	3	0.60	3.00	15.00	20.0
B26	0	5	3	0.00	0.00	15.00	0.0
B27	0	5	2.92	0.00	0.00	14.60	0.0
B28	0	5	3.08	0.00	0.00	15.40	0.0
B29	0	5	3	0.00	0.00	15.00	0.0
B30	0	5	3	0.00	0.00	15.00	0.0
B31	2	3	3.25	2.17	6.50	9.75	66.7
B32	1	3	3.33	1.11	3.33	9.99	33.3
B33	0	1	3	0.00	0.00	3.00	0.0
B34	1	1	3.17	3.17	3.17	3.17	100.0
B35	1	1	3.08	3.08	3.08	3.08	100.0
B36	1	1	3	3.00	3.00	3.00	100.0
B37	0	1	3	0.00	0.00	3.00	0.0
Score	9.0	52.0			27.7	156.4	17.7

Appendix P (iii) Cont..

Financial							
<i>SORE</i>	1	1	3.16	3.16	3.16	3.16	100.0
C38	0	1	3.25	0.00	0.00	3.25	0.0
C39	1	1	3.25	3.25	3.25	3.25	100.0
C40	1	1	3.25	3.25	3.25	3.25	100.0
C41	0	1	3.17	0.00	0.00	3.17	0.0
C42	0	1	3.08	0.00	0.00	3.08	0.0
C43	1	1	3	3.00	3.00	3.00	100.0
C44	1	1	3.25	3.25	3.25	3.25	100.0
C45	1	1	3	3.00	3.00	3.00	100.0
<b><i>SORE</i></b>	<b>6.0</b>	<b>9.0</b>			<b>18.9</b>	<b>28.4</b>	<b>66.6</b>
<i>BS</i>	1	1	3.11	3.11	3.11	3.11	100.0
C46	0	1	3.08	0.00	0.00	3.08	0.0
C47	0	1	3.08	0.00	0.00	3.08	0.0
C48	0	1	2.83	0.00	0.00	2.83	0.0
C49	0	1	2.83	0.00	0.00	2.83	0.0
C50	0	1	2.83	0.00	0.00	2.83	0.0
C51	0	1	2.92	0.00	0.00	2.92	0.0
C52	0	1	3	0.00	0.00	3.00	0.0
C53	0	1	3	0.00	0.00	3.00	0.0
C54	1	1	3.58	3.58	3.58	3.58	100.0
C55	0	1	2.75	0.00	0.00	2.75	0.0
C56	1	1	3.33	3.33	3.33	3.33	100.0
C57	0	1	3.25	0.00	0.00	3.25	0.0
C58	1	1	3.5	3.50	3.50	3.50	100.0
C59	1	1	3.33	3.33	3.33	3.33	100.0
C60	0	1	3.25	0.00	0.00	3.25	0.0
C61	0	1	3.25	0.00	0.00	3.25	0.0
C62	0	1	2.83	0.00	0.00	2.83	0.0
C63	1	1	3.25	3.25	3.25	3.25	100.0
<b><i>BS</i></b>	<b>6.0</b>	<b>19.0</b>			<b>20.1</b>	<b>59.0</b>	<b>34.1</b>
<i>CF</i>	1	1	3.38	3.38	3.38	3.38	100.0
C64	1	1	3.42	3.42	3.42	3.42	100.0
C65	1	1	3.42	3.42	3.42	3.42	100.0
C66	1	1	3.42	3.42	3.42	3.42	100.0
C67	1	1	3.25	3.25	3.25	3.25	100.0
<b><i>CF</i></b>	<b>5.0</b>	<b>5.0</b>			<b>16.9</b>	<b>16.9</b>	<b>100.0</b>
<b><i>FOFS</i></b>							
C68	1	1	3.83	3.83	3.83	3.83	100.0
C69	0	5	3.33	0.00	0.00	16.65	0.0
C70	1	1	3.5	3.50	3.50	3.50	100.0
C71	0	1	2.42	0.00	0.00	2.42	0.0
C72	0	1	2.33	0.00	0.00	2.33	0.0
C73	0	1	2.67	0.00	0.00	2.67	0.0
C74	0	1	2.92	0.00	0.00	2.92	0.0
C75	0	3	3.67	0.00	0.00	11.01	0.0
C76	2	3	3.25	2.17	6.50	9.75	66.7
C77	0	3	3.08	0.00	0.00	9.24	0.0
<b><i>FOFS</i></b>	<b>4.0</b>	<b>20.0</b>			<b>13.8</b>	<b>64.3</b>	<b>21.5</b>
<b>FIN Score</b>	<b>21.0</b>	<b>53.0</b>			<b>69.7</b>	<b>168.6</b>	<b>41.4</b>

**Appendix P (iii) Cont..**

Future-Related Information							
D78	0	1	3.58	0.00	0	3.6	0
D79	0	3	3.33	0.00	0	10.0	0
D80	0	1	2.83	0.00	0	2.8	0
Score	0.0	5.0			0.0	16.4	0.0
Total Score	55.0	160.0			175.4	495.1	35.4

**Key:**

AS = Actual score

MPS = Maximum possible score

WI = Weighting for importance

SORE = Statement of revenue and expenditure

BS = Balance sheet

CF = Cash flow statement

FOFS = Financial information outside financial statements

**Appendix Q(i): Item-by-Item Scores for the Period 2003 to 2005: 'Overview and Operational' Category**

Items	Experts' Weighting for Importance (maximum )	Weighted Score				Raw (Un-weighted) Score					
		Mean	% of Mean to Maximum	Highest Score	Lowest Score	No. of Annual Reports with Each Level of Importance <sup>1</sup>					Average Raw Score
						0	1	2	3	4	
Statement of objectives	3.42	1.82	53.2	2.74	0	6	1	26	0	0	2.7
Mayor's/president's report	3.33	1.09	32.7	3.33	0	17	4	11	1	0	1.8
Organisation structure	3.08	2.18	70.8	3.08	0	2	12	8	11	0	3.6
Role and responsibility of councillors	2.83	0	0	0	0	33	0	0	0	0	0.0
Area of administration	3.00	2.91	97.0	3.00	0	1	0	0	32	0	1.0
Scope of authority of the local authority and other relevant agencies	2.92	0.97	33.0	2.92	0	22	0	11	0	0	0.4
Internal control	3.25	1.54	47.4	3.25	0	6	9	16	2	0	1.4
Environmental management	3.00	0.67	22.3	2.00	0	22	0	11	0	0	0.8
Personnel	2.67	1.67	62.5	2.67	0	12	12	9	0	0	1.9
Occupational health & safety	2.83	0	0	0	0	33	0	0	0	0	0.0
Working environment	2.92	1.53	52.4	2.92	0	13	12	8	0	0	1.6
Training programmes for staff	2.75	0.89	32.4	1.83	0	20	13	0	0	0	1.0
Review of operations	3.33	2.19	65.7	3.33	1.11	0	3	28	2	0	2.0
Summary facts and figures	3.08	1.75	56.8	2.46	0.62	1	24	8	0	0	2.8
Challenges in undertaking services/activities	2.92	0.71	24.3	2.92	0	25	0	8	0	0	0.2
Factors that influenced the current status of performance achievement	3.08	0.75	24.3	3.08	0	25	0	0	8	0	0.2
Auditor general department's rating of financial management <sup>2</sup>	2.92	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Public complaints that have been resolved	3.17	2.31	72.9	3.17	3.17	9	0	0	24	0	0.7
Acknowledgement/award received from state and federal government <sup>3</sup>	2.83	2.83	100	2.83	2.83	0	0	20	0	0	1.0
Efforts in generating more revenue	3.33	1.51	45.3	3.33	0	18	0	0	15	0	0.5
Activity/programme that involved community participation	2.83	2.32	82.0	2.83	0	6	0	27	0	0	0.8

Note: <sup>1</sup> 0= unimportant; 1 = minor importance; 2 = quite important; 3 = very important; 4 = extremely important.

<sup>2</sup> The item 'Auditor General Department's rating of financial management' was not applicable in the period of study and was not included in the evaluation. The item was included in the index for future application of the index.

<sup>3</sup> 13 annual reports were allocated 'n/a' over the period of 2003 to 2005.

Appendix Q(ii): Item-by-Item Scores for the Period 2003 to 2005: 'Non-Financial Performance' Category

Items	Experts' Weighting for Importance (maximum )	Weighted Score				Raw (Un-weighted) Score					
		Mean	% of Mean to MPS	Highest Score	Lowest Score	No. of Annual Reports with Each Level of Importance <sup>1</sup>					Average Raw Score
						0	1	2	3	4	
Goals and objectives of services/activities	3.08	1.15	37.3	3.08	0	26	0	5	2	0	1.1
Non-financial performance targets	3.08	0.75	24.4	3.08	0	28	0	3	2	0	0.7
Input measures	2.58	0.83	32.2	1.03	0	32	1	0	0	0	1.6
Output measures	3.00	0.96	32.0	3.00	0.52	32	0	0	1	0	1.6
Impact measures	3.00	0	0	0	0.60	33	0	0	0	0	0.0
Efficiency measures	2.92	0	0	0	0	33	0	0	0	0	0.0
Effectiveness measures	3.08	0	0	0	0	33	0	0	0	0	0.0
Customer satisfaction measures	3.00	0	0	0	0	33	0	0	0	0	0.0
Productivity measures	3.00	0	0	0	0	33	0	0	0	0	0.0
Comparison between actual and target achievement	3.25	0.66	20.3	3.25	0	28	0	3	2	0	0.6
Comparison between current and previous year's achievement	3.33	1.82	54.6	3.33	0	12	0	19	2	0	1.6
Report on the use of government grants	3.00	0.27	9.0	3.00	0	30	0	0	3	0	0.1
Performance of contractors responsible for providing contracted services	3.17	0.19	6.0	3.17	0	31	0	0	2	0	0.1
Achievement of specific programmes as ordered by state/federal government	3.08	1.21	39.3	3.08	0	20	0	0	13	0	0.4
Contracted-out service/activity	3.00	1.27	42.3	3.00	0	19	0	0	14	0	0.4
Improvement programme of service delivery system	3.00	1.00	33.3	3.00	0	22	0	0	11	0	0.3

Note: <sup>1</sup> 0= unimportant; 1 = minor importance; 2 = quite important; 3 = very important; 4 = extremely important.

**Appendix Q(iii): Item-by-Item Scores for the Period 2003 to 2005: 'Financial' Category**

Items	Experts' Weighting for Importance (maximum )	Weighted Score				Raw (Un-weighted) Score					
		Mean	% of Mean to MPS	Highest Score	Lowest Score	No. of Annual Reports with Each Level of Importance <sup>2</sup>					Average Raw Score
						0	1	2	3	4	
<b>Statement of Revenue and Expenditure (SORE):</b>	3.16 <sup>1</sup>	3.16	100	3.16	3.16	0	0	0	33	0	1.0
Revenue according to activities or services rendered	3.25	0	0	0	0	33	0	0	0	0	0.0
Revenue according to source of revenue	3.25	3.25	100	3.25	3.25	0	0	0	33	0	1.0
Total revenue	3.25	3.25	100	3.25	3.25	0	0	0	33	0	1.0
Gross expenditure according to service	3.17	0	0	0	0	33	0	0	0	0	0.0
Net expenditure according to service	3.08	0	0	0	0	33	0	0	0	0	0.0
Expenditure classified by nature or function	3.00	3.00	100	3.00	3.00	0	0	0	33	0	1.0
Total expenditure	3.25	3.25	100	3.25	3.25	0	0	0	33	0	1.0
Total excess/surplus	3.00	3.00	100	3.00	3.00	0	0	0	33	0	1.0
<b>Balance Sheet (BS):</b>	3.11 <sup>1</sup>	3.11	100	3.11	3.11	0	0	0	33	0	1.0
Operational assets at cost	3.08	0	0	0	0	33	0	0	0	0	0.0
Operational assets at market value	3.08	0	0	0	0	33	0	0	0	0	0.0
Non-operational assets at cost	2.83	0	0	0	0	33	0	0	0	0	0.0
Non-operational assets at market value	2.83	0	0	0	0	33	0	0	0	0	0.0
Community assets at cost	2.83	0	0	0	0	33	0	0	0	0	0.0
Community assets at market value	2.92	0	0	0	0	33	0	0	0	0	0.0
Infrastructure assets at cost	3.00	0	0	0	0	33	0	0	0	0	0.0
Infrastructure assets at market value	3.00	0	0	0	0	33	0	0	0	0	0.0
Total fixed assets	3.58	3.58	100	3.58	3.58	0	0	0	33	0	1.0
Deferred charges	2.75	1.08	39.3	2.75	0	20	0	13	0	0	0.4
Long-term investments	3.33	0.81	24.3	3.33	0	25	0	0	8	0	0.2
Long-term debtors	3.25	0.59	18.2	3.25	0	27	0	0	6	0	0.2
Current assets	3.50	3.50	100	3.50	3.50	0	0	0	33	0	1.0
Current liabilities	3.33	3.33	100	3.33	3.33	0	0	0	33	0	1.0
Long-term borrowings	3.25	1.87	57.5	3.25	0	14	0	0	19	0	0.6
Deferred liabilities	3.25	0.30	9.2	3.25	0	30	0	0	3	0	0.1
Deferred credits – government grants	2.83	1.63	57.6	2.83	0	14	0	19	0	0	0.6
Reserves	3.25	3.25	100	3.25	3.25	0	0	0	33	0	1.0

Appendix Q (iii) Cont..

Items	Experts' Weighting for Importance (maximum )	Weighted Score				Raw (Un-weighted) Score					
		Mean	% of Mean to MPS	Highest Score	Lowest Score	No. of Annual Reports with Each Level of Importance <sup>2</sup>					Average Raw Score
						0	1	2	3	4	
<b>Cash Flows Statement (CF):</b>	3.38 <sup>1</sup>	3.38	100	3.38	3.38	0	0	0	33	0	1.0
Operating cash flows	3.42	3.42	100	3.42	3.42	0	0	0	33	0	1.0
Investing cash flows	3.42	3.42	100	3.42	0	0	0	0	33	0	1.0
Financing cash flows	3.42	3.21	100	3.42	3.42	2	0	0	31	0	0.9
Year end cash and cash equivalents	3.25	3.25	100	3.25	3.25	0	0	0	33	0	1.0
<b>Financial Information Outside Financial Statements:</b>											
Auditor's report	3.83	3.83	100	3.83	3.83	0	0	0	33	0	1.0
Financial review	3.33	1.09	28.5	2.66	0	21	0	12	0	0	1.6
Accounting policies	3.50	3.50	100	3.50	3.50	0	0	0	33	0	1.0
Revenue to number of staff	2.42	0	0	0	0	33	0	0	0	0	0.0
Total asset to number of staff	2.33	0	0	0	0	33	0	0	0	0	0.0
Revenue to cost of service	2.67	0	0	0	0	33	0	0	0	0	0.0
Return on assets	2.92	0	0	0	0	33	0	0	0	0	0.0
Actual to budget comparison	3.67	0.74	20.2	2.45	0	23	0	10	0	0	0.6
Information about cost of service/activity	3.25	1.12	34.5	2.17	0	9	14	10	0	0	1.0
Assessment tax rates	3.08	0.12	3.4	1.03	0	29	4	0	0	0	0.2

Note: <sup>1</sup> Maximum possible score for items SORE; BS; CF are the mean of the weighting for importance of all items in each particular category and not based on stakeholders' expectations.

<sup>2</sup> 0= unimportant; 1 = minor importance; 2 = quite important; 3 = very important; 4 = extremely important.

**Appendix Q(iv): Item-by-Item Scores for the Period 2003 to 2005: ‘Future-Related Information’ Category**

Items	Experts’ Weighting for Importance (maximum )	Weighted Score				Raw (Un-weighted) Score					
		Mean	% of Mean to MPS	Highest Score	Lowest Score	No. of Annual Reports with Each Level of Importance <sup>1</sup>					Average Raw Score
						<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	
Future plans	3.58	0.76	21.2	3.58	0	26	0	0	7	0	0.2
Future performance targets	3.33	0.30	9.0	3.33	0	28	3	0	2	0	0.3
Information pertaining to future capital improvements	2.83	0.09	3.2	2.83	0	32	0	1	0	0	0.0

Note: <sup>1</sup> 0= unimportant; 1 = minor importance; 2 = quite important; 3 = very important; 4 = extremely important.



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