

Tracing the future of reporting in the public sector: introducing integrated popular reporting

Introducing
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reporting

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Sandra Cohen and Sotirios Karatzimas
*Department of Business Administration,
Athens University of Economics and Business, Athens, Greece*

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Abstract

Purpose – The purpose of this paper is to debate the future form of reporting in the public sector by examining alternative forms of reporting, and more specifically the frameworks of integrated reporting and popular reporting. Moreover, the paper explores whether and how these reports could be related to each other in order for the needs of a pillar user group, that of the citizens, to be addressed.

Design/methodology/approach – The authors analyze the frameworks of integrated reporting and popular reporting, and by combining their characteristics the authors propose a creative synthesis suitable for the public sector.

Findings – The analysis leads to the conclusion that governmental entities need to take the next step on reporting in two parallel levels: the first would require the publication of information encountered in integrated reports containing various information elements that are not confronted to the traditional financial ones. The second would result in the provision of this information in a concise and easily comprehensive way. The merger of these two streams will give rise to the publication of “Integrated Popular Reports – IPR.”

Originality/value – This move would result to useful and meaningful reporting with potential strategic advantages. The integrated reporting dimension of the reports combined to the popular reporting dimension would provide an adequate information matrix for citizens and other user groups (e.g. politicians, public executives), that are interested to understand the “whole picture” of public sector entities but at the same time they neither possess advanced accounting knowledge nor they are familiar with technical terminology.

Keywords Integrated reporting, Citizens, Financial reporting, Public sector accounting, Popular reporting, User needs

Paper type Conceptual paper

Introduction

Lately, there has been an extensive debate about whether the existing form of reporting in the public sector eventually addresses the needs of the various different user groups (Mack and Ryan, 2007; Arnaboldi and Lapsley, 2009; Walker, 2009). As governmental reports users vary to a great extent in terms of education, expertise, maturity and information requirements, the view that the needs of each distinct group could be satisfied by the existing form of financial reporting, has been widely challenged (Hernández and Pérez, 2004). For example, investors evaluate information in a different way compared to citizens, as they have different information needs. Investors might need to review additional information that might not add value or even confuse citizens. Still, both groups are equally important users of governmental financial reports for different purposes (International Public Sector Accounting Standards Board (IPSASB), 2013).

During the last years significant steps have been taken in order public sector reporting to become more informative and more easily understandable by the majority of users (Christiaens *et al.*, 2010; Bergmann, 2012). These initiatives are signified with the transition of many countries from cash-based systems to more informative ones



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based on accrual accounting. The development of international accounting standards for the public sector, such as International Public Sector Accounting Standards (IPSAS) and European Public Sector Accounting Standards (EPSAS), points also toward this direction. Nevertheless, there are still many who believe that an increase in the complexity of financial reporting in the public sector will result in financial reporting becoming eventually even more difficult to understand for people that are not accounting savvy (Paulsson, 2006). There are doubts whether business-like governmental reports would enhance citizens understanding of public finance issues after all. It is important to note that with the term “citizens” we refer to the profile of the average citizen, i.e. a person that lacks or has limited accounting knowledge and/or expertise, and not to the so-called “informed” citizens.

Within this debate, two alternative forms of reporting information to users have been receiving growing attention internationally. The first refers to popular reporting, which aims at informing citizens about the financial condition of the state/local government in a convenient and friendly manner. Popular reports are expected to be concise, short in length, and present in a simplified way public sector accounting information (Governmental Accounting Standards Board, 1992; Stanley *et al.*, 2008). The second refers to integrated reporting, also known as “one report” (Eccles and Krzus, 2010). Integrated reports target the provision of a single document with information covering both financial and non-financial issues (Eccles and Armbrester, 2011). They include information about all forms of capital that are considered important for an organization’s long lasting prosperity, i.e. financial capital, manufactured capital, human capital, social capital, intellectual capital and natural capital (International Integrated Reporting Committee (IIRC), 2013).

Nevertheless, while popular reporting promotes the simplification of financial numbers, integrated reporting involves the provision of additional, non-financial information. Within this context it appears that these two trends constitute two extremes in a “pole of complexity.” The first tries to present financial information in a simplified way, while the other engages additional, not necessarily financial oriented material to the traditional financial reports. While additional non-financial information might be useful and relevant, it could unavoidably complicate the content of the reports. According to the International Integrated Reporting Committee’s discussion paper (International Integrated Reporting Committee (IIRC), 2011), the importance of reporting non-financial information, refers mainly to “meeting the information needs of investors and other stakeholders.” But are the information needs of citizens the same to those of investors? Citizens are not expected to know the technicalities of accrual accounting principles and might strive to understand the content of accrual accounting financial reports. They therefore might face additional difficulties in understanding the even more extensive and pluralistic content of integrated reports. The objectivity in both popular and integrated reports is another dimension that cannot be left out from the discussion. As both popular and integrated reports are not audited it is difficult to assess whether the information disclosed therein is bias free and non selective. More specifically, both popular reports and integrated reports are not going through the typical external audit procedure that is performed for general purpose financial statements. Nevertheless, the financial statements included in these reports and the accounting figures disclosed therein should undoubtedly not diverge from the audited ones. However, the non-financial data are not expected to be explicitly audited.

Our study focusses on the information needs of citizens. A group of public sector stakeholders whose information needs seem to be addressed at a suboptimum level

under the existing status quo. Our suggestion can be summarized under the title “Integrated Popular Reports – IPR” and creatively synthesizes elements of popular reporting and integrated reporting.

The structure of the paper is the following: in the next sections we discuss the complexity of modern reporting in the public sector, the profile of citizens as users of public sector financial reporting, and the role of accountability within democratic polities. Then we present the two new reporting trends that are relevant to our study; integrated and popular reporting. Finally, we present the idea of a synthesis of the two reporting types to address citizens’ information needs. The paper concludes with a discussion, remarks and future research suggestions.

Complexity of modern financial reporting

Cash-based accounting is generally considered to be the simplest form of financial reporting as it reports revenues and expenditures that have been received or paid, respectively, during a period. While it may not be the most useful one, at least it is considered to be the simplest (Wynne, 2007; Kober *et al.*, 2010). Recently public sector entities financial reporting evolves toward adopting accrual accounting methodologies either directly or through interim steps such as modified cash basis or modified accrual basis. As a result, the level of complexity arises at a parallel level (Sharp *et al.*, 1998; Paulsson, 2006). Accrual accounting is more complicated compared to cash accounting (Diamond, 2002). Especially when it comes to the public, accrual accounting is more complicated and difficult to understand than cash accounting (Šević, 2006). Although accrual accounting might be easier to be understood by professionals who are keen on business-like accounting, this does not hold true for the majority of citizens (Šević, 2006). Today, many countries as well as various international organizations (e.g. OECD, NATO, United Nations) have proceeded in adopting accrual-based IPSAS which are to a significant extent based on International Financial Reporting Standards (IFRS). Recent studies provide empirical evidence that the transition of private sector firms from national accounting standards to IFRS was not an easy task mainly due to the complexity of IFRS (Haswell, 2006; Hoogendoorn, 2006; Jermakowicz and Gornik-Tomaszewski, 2006). Transferring this complexity to the public sector environment cannot be neglected. According to Parry and Wynne (2009, p. 23), the introduction of business-like financial reporting in the public sector through IPSAS “led to significant confusion and challenges,” due to the substantial differences between the two sectors.

There are various studies that witness that the adoption or adaptation of accrual IPSAS by underdeveloped – in terms of financial management – countries, caused various turbulences (e.g. Wynne, 2008; Adhikari and Mellemvik, 2010). This comes as a result of a lack of understanding – on behalf of the IPSAS promoting organizations – of the specific needs of the adopting country (Wynne, 2008), as well as of the capabilities of the adopting country (Adhikari and Mellemvik, 2010), and the proper training of government accountants and auditors (Adhikari *et al.*, 2012). The result is unsuccessful attempts of introducing accrual-based IPSAS (e.g. in Nepal, Adhikari and Mellemvik, 2010; in Ghana, Tanzania and Uganda, Wynne, 2008) and the recourse to the cash-basis IPSAS. That is probably why several scholars suggest a “basics first” approach and prevent developing countries from following the steps of frontrunners such as New Zealand or Australia, for example (Bale and Dale, 1998; Schick, 1998). While investors and creditors are familiar to the context of IPSAS-based financial reporting, public sector executives – not to mention citizens – may face considerable difficulties in copying with the new regime. For example, Stanley *et al.* (2008) recognize the complexity

of modern government financial and budget documents and Yusuf *et al.* (2013) recognize their unintelligibility for the majority of citizens. Additionally, Grossi and Soverchia (2011, p. 529) report the difficulty of public managers in “understanding accrual-based financial reporting.” The non-satisfaction of citizens’ needs, that is undoubtedly a pillar stakeholder group in the public sector, comes in contrast with the basic goal of financial reporting in the public sector as explicitly expressed in public sector accounting rhetoric.

Citizens as users of public sector financial reporting

The primary goal of governmental financial reporting is to satisfy the information needs of numerous different users for decision-making as well as for accountability purposes (Governmental Accounting Standards Board (GASB), 1987; IPSASB, 2013). Within these different user groups which include politicians, investors and creditors, oversight and governing bodies among others, citizens hold a prominent position. Citizens are identified as the most significant group of governmental financial reporting users in terms of voting power and financial assistance provided through taxes (Daniels and Daniels, 1991). Despite their significance though, they are characterized as being ignorant, not interested and even prone to the incentives of financial reporting preparers and, thus, receivers of fiscal illusion (Chan and Rubin, 1987; Jones, 1992; Mayston, 1992). Various studies have been conducted by both scholars and accounting bodies trying to determine the informative needs of governmental accounting information users (e.g. Drebin *et al.*, 1981; GASB, 1987; Ingram *et al.*, 1991; IPSASB, 2013). Nevertheless, recording the actual users and uses, has been characterized as a “recurrent ambition” (Skaerbaek, 2005) and “somewhat chimerical” (Hay, 1994).

As citizens constitute major resource providers to public sector entities, their prominent information needs, on the basis of the conclusions of a number of studies, could be summarized to the following ones: the use of these resources, the management of governmental programs (Pérez *et al.*, 2005), the cost of the provided services (Daniels and Daniels, 1991), future taxation aspects (Brusca and Montesinos, 2006) as well as the financial condition (Brusca, 1997) in both state and local government level.

Although needs are recognized, there is a general notion that the general public has no interest in financial statements (Jones, 1992). Empirical works have concluded that citizens appear to make limited use of governmental financial statements in practice (Zimmerman, 1977; Jones, 1992; Brusca, 1997). Christensen (2002) also reports low or no usage of public sector financial reports by citizens. These findings could, however, be reversed by finding alternative and new ways to intrigue citizens’ interest. Although difficulties in accessing governmental financial information by citizens has been recorded (Tayib *et al.*, 1999; Brusca and Montesinos, 2006), Mack and Ryan (2007) provide evidence of a recent increased emphasis of public sector organizations on financial reporting, as a means used by them to further engage with their users.

Democracy, accountability and accounting information

Within this new emerging era of complicated modern public sector financial reporting systems, citizens appear to be just spectators of the changing environment. But their importance, especially in democratic polities, cannot be neglected. This would contradict the “democratic participation” notion which requires from modern societies to give more voice to the public, and encourage it to participate in collective decision-making (Rothschild and Russell, 1986; Warren, 2002).

Governmental entities in democratic polities, apart from encouraging participation and providing voice to citizens, are also accountable to the public for

all their activities (Barton, 2011). More specifically, Brusca and Montesinos (2006) propose that governments are accountable toward the public for the use of taxes and the provision of qualitative goods and services. Accountability in the public sector is more important than in the private sector (Mulgan, 2000), and it is mainly achieved through financial statements and budgeting documents (Barton, 2005). Thus the existence of poor financial reporting and budgeting tools impairs accountability. The same happens from their misuse. Literature provides examples of selective use of budgeting information for accountability purposes (e.g. Mutiganda, 2013), as well as of the effects of budget revisions in relation to accountability (Anessi-Pessina *et al.*, 2012). But on top of the existing traditional budgeting and reporting tools there might be a need for alternative reports that serve the accountability goal toward citizens.

In this realm, during the last years starting from the USA and Canada a movement targeting to the preparation and publication of reports especially addressing citizens' profile has evolved. These reports contain easily understandable financial information regarding governmental entities and are called "popular reports."

Popular reporting

Popular reporting refers to the preparation of concise, easily read, comprehensive and user-friendly financial reports mainly focussing on citizens' needs. Nevertheless, apart from citizens which constitute the cornerstone target group of popular reports, these reports could be useful for politicians, public sector employees, the media and community groups. Therefore they could address a rather extended audience with common denominator of all these user groups being the lack of expertise in accounting and financial reporting. The basic philosophy of popular reporting is the provision of a simplified view of financial statements, avoiding both detailed analysis and the use of complicated technical terms. The complexity of these reports is therefore driven by the "maturity" level of the users (i.e. citizens) and not that of the preparers (Sharp *et al.*, 1998). Of course the information included derives from the formal financial statements and formal financial systems. As a result popular reporting is neutral to the accounting systems implemented. It would be equally applicable when an entity uses IPSAS, EPSAS or any other set of nationally developed accounting standards provided that the summary financial information in the popular reports corresponds to that disclosed in the official audited accounting or budgeting statements. Additionally, popular reports should be timely published, have a clearly defined scope and highlight the existence of the formal set of financial statements for those who would like to have more detailed information (GASB, 1987). Those interested in getting more details or additional information could easily consult the financial reports.

Through this alternative way of presenting governmental accounting information, citizens that in their majority are not keen on or familiar with public sector accounting or accounting in general are encouraged to engage in public matters. The "making" of interested citizens is expected to lead to multiple benefits. To give a simple but practical example, informed citizens could be more willing to fulfill their tax payment obligations. In a broader sense, satisfied constituents would support policies and legitimize politicians decision-making (Irvin and Stansbury, 2004; Yusuf *et al.*, 2013).

Empirical evidence has revealed, however, a paradox in relation to popular reports. While many governmental entities respond to this trend and develop popular reports, they do not proceed in the necessary second step that is their active dissemination to constituents (Yusuf *et al.*, 2013). Therefore a decoupling is witnessed between the rhetoric of producing popular reports as a means for enhancing accountability and

transparency in public financial matters and the actions in order accountability and transparency to be actually facilitated and materialized in practice. From another point of view, the fact that the popular reports are not adequately delivered and disseminated might raise questions regarding the existence of a strong demand for them. Eventually, this makes the need to open the discussion of creating a more effective type of reporting toward citizens even more demanding. Our proposal regarding Integrated Popular Reporting contributes to this agenda.

Integrated reporting

Nevertheless, the requirements of the modern economic environment ask for information that goes beyond financial reporting. During the last years there has been a trend especially within the private sector firms, to prepare reports that would provide, along with the traditional financial reports, alternative information (e.g. corporate social responsibility reports, sustainability reports, environmental reports). This comes in line with the wider need for firms to meet their accountability and transparency obligations. This need is further expressed with the recent development of integrated reporting which comes as a response to stakeholders' demand for additional, and alternative in nature, decision-useful information (IIRC, 2013). The idea behind integrated reporting is the creation of one report that would operate as a "simultaneous web of interactions and implications of financial, social, environmental, and governance-related organizational activities for stakeholders" (Abeysekera, 2013, p. 243). As the profile of modern stakeholders is changing, firms have to adjust their reporting systems to abide to pluralistic information needs.

Integrated reporting incorporates in one single report information from all major pillars of an organization's existence. Apart from financial capital-related information, information regarding the manufactured capital (i.e. manufactured physical objects available to the organization for the production of goods or the provision of services), the human capital (i.e. people's skills, experience, and motivations to innovate), the social capital (i.e. the institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being), the intellectual capital (i.e. intangibles that provide competitive advantage) and the natural capital (i.e. water, land, minerals and forests, biodiversity and eco-system health) is presented as well (IIRC, 2011, 2013). Integrated reports emphasize on the understanding of how an organization creates value by the interplay of the various capital flows.

Although, "one report" might sound quite ambitious for public sector reporting, its application in public sector entities or non-for-profit ones is encouraged by scholars (Adams and Simnett, 2011; Bartocci and Picciaia, 2013) and the IIRC itself (IIRC, 2013, p. 8). Apart from the financial capital dimension which basically refers to the information steaming from annual financial reports, information regarding the other five types of capital is rather rarely met in public sector publications. Nevertheless, the provision, for example, of additional information regarding human or intellectual capital is considered as being very important in the public sector from a strategic perspective (Wall, 2005; Kong, 2007) and could result to the achievement of a more "holistic, useful and meaningful reporting" (Adams and Simnett, 2011, p. 293). More specifically, as human capital constitutes the "fundamental resource of the public sector" and social capital is closely linked to its social function (Bartocci and Picciaia, 2013, p. 200), it would be rather interesting and useful to find information on training and education issues, equity, safety and relations. Regarding intellectual capital the

provided information could refer to management and technical processes, management philosophy and culture (organizational capital), as well as to issues of intellectual property (e.g. patents). According to Bartocci and Picciaia (2013) manufactured capital in the public sector could refer to “available assets” providing information on their composition, value and use (e.g. buildings, infrastructure). Conceptually, the idea of integrated reporting, shares similarities with the balanced scorecard (Kaplan and Norton, 1996), which is however a management accounting tool indented not to disclose information outside the company boundaries.

The transplant of integrated reporting from the private sector to public sector should go through an adaptation process as relevant adjustments should and must take place due to the inherent differences between these two sectors (Abeysekera, 2013). In the same context, the IIRC (2013) suggests flexibility in the adaptation of the proposed six-capital framework in different types of organizations. Thorough consideration should be also given to the fact that reports including non-financial information already exist as a concept in the public sector. Performance measurement reports (International Public Sector Accounting Standards Board, 2014) or social and environmental reports (Guthrie and Abeysekera, 2006) could provide useful input to be used as a basis to adapting integrated reporting to the public sector. Nevertheless, these reports are not developed along the basic principle promoted by integrated reporting, that of how value is created.

Eventually, an integrated report would end up containing a large number of pages. The accommodation of detailed multifaceted information useful in encapsulating the whole picture of a private or a public sector entity would result into a sizable report. Even though IIRC claims that integrated reports should be concise, concision is a relevant term; integrated reports tend to be sizable comprising several dozens of pages. But in this way integrated reports might cause an even bigger confusion to the average-educated report user, and to users who want to get the “whole” picture but are not interested in a lot of technical details.

A synthesis ...

The presentation of these two forms of reporting reveals the usefulness of providing additional – to the traditional financial – information to users of public sector accounting reports. At the same time it is evident that if this information is not presented in a concise, comprehensive and attractive manner, the reports will fail to capture the average citizen’s interest. The new reporting-era in order to be successful and effective should be innovative as well. In other words there is no reason to compromise with the provision of easily understandable but just financial information, or with the provision of numerous-paged rich in non-financial information but complex reports. The answer could be hiding somewhere in the middle of this “pole of complexity” (Figure 1).

The proposed scheme of Integrated Popular Reporting could be therefore a synthesis under which popular reports would be enhanced to include basic and necessary information of the other major pillars of a public sector entity’s well-being, prosperity and value creation. In this way the reports would provide a holistic, useful and meaningful information set in an easily comprehensive and attractive manner. The proposed framework would achieve two goals simultaneously: on one hand, citizens would be encouraged to engage with public matters with simply presented information while on the other hand, the reporting entity would fulfill its reporting obligations, by providing a “holistic” picture of its status to citizens. In this realm, a number of

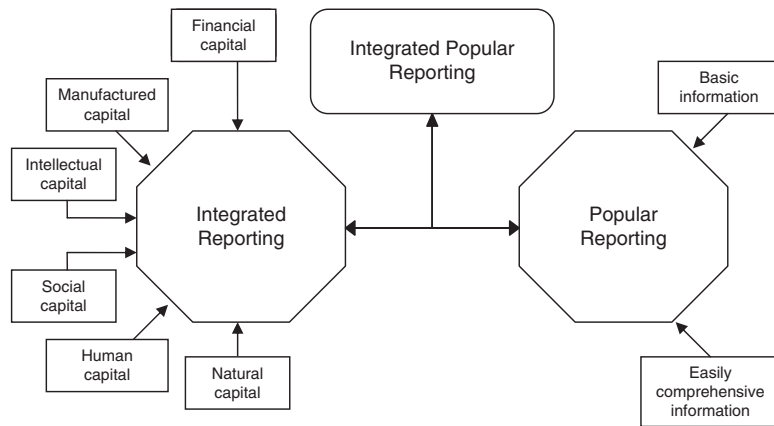


Figure 1.
A synthesis of the
two trending
reporting forms

governments around the world consider broader and more holistic ways of measuring economic growth and economic impact apart from gross domestic product (International Integrated Reporting Committee (IIRC), 2014).

IPRs would also provide the necessary flexibility in public sector entities to communicate with citizens. The widespread use of social media, could further serve in promoting this report to the general public, either by publicizing or by showing excerpts in the form of teasers for IPR. While financial reports tend to become standardized internationally with the adoption of international standards like IPSAS, preventing therefore public sector entities to differentiate, IPRs would be developed addressing the exact communication needs of both prepares and receivers safeguarding in this way the necessary agility in reporting. In this sense there could not be a single, restrictive, IPR template. Although guidelines on the development of an IPR should be provided, this should only take place in a spirit of consultation, as it is extremely difficult to achieve homogeneity and uniformity in all reporting cases. As these reports are based on country-specific characteristics, eventually each country or public sector entity will have the discretion to develop its own IPR template based on its specificities. Public sector accounting at least in Europe is heterogeneous and constitutes a mosaic of different accounting systems at different governmental levels (Brusca *et al.*, 2015). IPR would embrace this pluralism in a creative manner.

Nevertheless, an issue of objectivity of IPR emerges, as these reports are not expected to be externally audited. As non-audited statements are always treated with suspicion by users, the function of audit should be further analyzed. Of course the quality of reporting is highly reliant on the intensity and ubiquity of the internal audit function as well as the compliance assessments or performance certifications that will report quality or level of performance, as the IIRC suggests (IIRC, 2013). Still, the involvement of external auditors as an assurance mechanism might be advisable.

Conclusion

In this era of rapid changes in the economic and political environment, governmental entities have gone beyond the traditional concepts of governance and management. On the same realm they have gone beyond the traditional barriers of governmental financial reporting. The new relationships developed with their key stakeholders require new communication tools. In this context, it might be the time for citizens to change their role

from spectators of changes to influencing players. The vast majority of citizens are not accounting savvy or expert enough in accounting to comprehend technicalities and documents with lots of multifaceted information. They would prefer to get the whole picture of the value creation activities in a public sector entity in a concise, digested and easily understandable way. In this paper, we do not claim that integrated reporting is not suitable for the public sector. On the contrary it might be as suitable for the public as for the private sector. Nevertheless, integrated reporting as it stands comes to mainly satisfy investors' information needs as cited in the IIRC's Discussion Paper (IIRC, 2011).

In this paper we provide a synthesis of the main characteristics of the emerging reporting schemes of integrated reporting and popular reporting into a new construct suitable for the public sector. We name this new model "Integrated Popular Reporting." At this first stage, various issues require close attention: The fact that the original reports comprising IPR are not audited constitutes a significant issue of reliability, which should be critically assessed. At the same time, it is certain that the development of a new type of reporting will ask for the devotion of resources. It should therefore be analyzed whether the benefits steaming from the expanded information set and the value of the information to the citizens for accountability purposes exceed the cost.

We acknowledge that our analysis is not thorough but the scope of the paper is to frame a new reporting scheme and sow the seeds of this new idea into discussion. While popular reports and IR are mainly addressing the needs of specific groups of stakeholders, we trust that IPR would provide a holistic view of the operations, the service provision and the value creation of public sector entities in a way that would attract the interest of all citizens and the society in general. Future research should involve the study of experts' opinion (policy makers, public sector entities, citizens' representation groups, etc.) on these topics through the conduction of interviews and discussions or through the development of a questionnaire in order to come up with a template and outline that will be inclusive and informative while striking a balance between completeness and selectiveness.

This new era demands for the provision of alternative information that would facilitate both internal and external users to proceed into sound decision-making and assessments and at the same time it will stand for trust, safeguarding in this way accountability and transparency. Governmental entities need to make the next step on reporting to citizens, as this is expected to be accompanied with several strategic advantages. A number of governments around the world are looking beyond gross domestic product and considering broader and more holistic ways of measuring economic growth and economic impact (IIRC, 2014). IPR may be an alternative pointing at this direction.

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Corresponding author

Associate Professor Sandra Cohen can be contacted at: scohen@aub.gr

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