

Local government accounting and accountability – challenges and choices

The collection of papers in this special issue has primarily been drawn from the papers presented at 2016 CIGAR Workshop was held in Wellington, 7-8 July 2016, and jointly organised by Massey University's School of Accountancy and Victoria University's School of Accounting and Commercial Law.

In many countries, local governments are facing similar challenges and choices. Not least among these are the debates about the fundamental role of local government in the provision of local (often taken for granted) services and in relation to local governments' share of, and impact on, the national economy. Those debates are reflected in the enduring tensions generated by periodic changes to the functional scope and powers of local authorities including their autonomy from national (and state) governments. That tension is further exacerbated by restraints on the ability of local authorities to raise funding and their resultant reliance on national (or state) allocations and grants. Like all forms of government, therefore, local authorities must make, often, difficult decisions about what services can and cannot be provided or, if provided, how they are to be funded.

In the context of having to make those difficult choices, local authorities are also attempting to increase engagement with their electorates to both encourage greater local consultation and citizen participation in decision-making and, ultimately, to improve often low voter turnout in local elections.

The papers in this issue explore these challenges and their impacts on local government funding, decision-making, accounting and accountability.

The costs associated with the development and maintenance of infrastructural assets consume the major proportion of most local authorities' funding. In a study involving a survey of the mayors and CEOs of 420 Australian local government authorities, Siriwardhane and Taylor explore the priority given to the expectations of different stakeholder groups in respect of infrastructural assets. More simply, the paper asks to whom, or to what, do mayors and their CEOs pay attention?

The authors draw a distinction between local-level "public stakeholders", who are the end users or service recipients, and "government stakeholders", who can affect local government through their policy-making, oversight and funding powers. It is suggested that in practice managers are accountable to multiple stakeholders in both groups who will have a range of different values and priorities in respect of their local infrastructural assets. Mayors and CEOs will therefore enter into satisficing practices whereby those, often competing, demands are assigned different priorities according to the salience of the different stakeholder groups.

The nature of the accountability relationships involved is further classified into:

- public accountability involving the provision of information and responses to the local community;
- managerial accountability focusing on the efficiency and effectiveness of the organisation's operations; and
- political accountability which reflects the hierarchical relationships between managers, CEOs, mayors and central government.

Generally, the research found a great deal of similarity between the responses of mayors and the CEOs, both of whom placed more emphasis on public and managerial accountability



than on political accountability. It is suggested that this reflects the higher salience of ratepayers, users of infrastructural assets, community special interest groups and local media.

Issues of fiscal prudence and local accountability in respect of infrastructural assets are also explored in Sciulli's paper on a proposed development of an aquatic and health centre by a local authority in Australia. This case study illustrates how accounting information can be used for communication and transparency at local government level and presents evidence of community engagement in such decisions. The study extends previous work by Bovens (2007) on elements of accountability as a mechanism as well as a virtue. Through content analysis this study provides important evidence of accountability being both practical and normative. The evidence in this study also shows that the use of accounting information is important in highly charged political environment. Communication of accounting information in this context evidences empowerment of constituents. There is also evidence for a need of concise and easily understandable information which is needed for decision making by the general public. The evidence in this study is particularly important for our better understanding of the need for accountability in the conditions of budget cuts and austerity measures often imposed on local government and provides a contribution to our understanding of what contributes to an effective accountability and transparency process for local government. Although, interestingly, the paper also suggests that the public consultation process may have been used by the local authority to legitimise a decision that had, in practice, already been made on the grounds of affordability.

Another paper in this issue by Ehalaiye, Botica-Redmayne and Lasward on the "Financial Determinants of Local Government Debt in New Zealand" explores the, often dual, public criticisms of local government that they are incurring too much debt and that they are under-investing in infrastructural assets. Interestingly, the paper suggests that, together with other controls limiting both the scope of local governments' functions and their revenue-raising abilities, central government has been able to influence, if not entirely, control, the level that debt. Thus, it is argued that prudential controls placed on borrowing in foreign currencies, and hence overall borrowing, by the Government Funding Agency represent a constraint on the potential moral hazard associated with local governments wanting to invest in popular services, particularly around the time of elections.

The authors examined the financial factors affecting the level of local government debt by analysing financial data for New Zealand's 78 local authorities. They find that the major factor affecting the level of borrowing is the level of a local authority's total income. It is also suggested that the broader pattern of spending on different functions also has an impact in that spending on assets other than infrastructural assets predictably leads to an overall increase in the need for borrowing to fund infrastructural assets.

Continuing with the theme of local government investment in public assets and facilities, Sciulli uses a case study of a proposed aquatic and health centre. Sciulli suggests that this case "illustrates that being transparent and communicating accounting information via different forums can create significant community engagement to facilitate council decision making; albeit at a cost of some social disharmony".

On the other hand, in their paper on local councils' environmental sustainability reporting, Othman, Laswad and Nath provide a less successful example of community engagement. This paper examines key managerial response in local New Zealand government to the introduction of the Environmental Reporting Act (2015). The results obtained by a survey in this study show the varied focus of councils on the importance of environmental sustainability reporting depending on the perceived power of their stakeholders. Satisfying legal requirements appears an important factor in environmental

sustainability reporting while availability of funding and resources are a significant challenge when it comes to such reporting. The results in this study also show a tension between the central government, the elected representatives and the public when it comes to new and increasingly more demanding reporting on environmental sustainability. This paper provides important evidence on how local government views risks, opportunities and implications of new legislation and consequential new reporting requirements on environmental sustainability.

Another view of the benefits and possible costs of transparency is provided by Garseth–Nesbakk and Kiruppa in their paper on the “Diametrical effects in government accountability” in which they describe the Norwegian experience of the interaction between the Auditor-General’s performance audits of government departments and the subsequent reporting, or interpretation, of that information by the media. The authors describe how, in response to what they perceive as a negatively critical audit process, ministers and officials have limited the information made available to auditors. It is also suggested that public organisations may, either deliberately or unknowingly, adjust their operations to avoid criticism, including focusing on what is easily measured and reported rather than what is important. They note that ultimately, “intensified accountability pressure associates with increased opaqueness in public administration rather than increased transparency”.

Finally, the use and impact of accounting information is also explored in Bourmistrov’s paper entitled “Mental Models and Cognitive Discomfort”. This paper examines how public servants respond to changes in the content of financial reports. The study in this paper combines the theoretical frameworks of users’ mental models with the use of accounting information in local government organisations. By using analysis of interviews with three key public servants in Russia when those participants are presented with “old” and “new” format of financial reports, this study endeavours to explain the reluctance by participants to accept changes in the financial accounting reports. The evidence in this study shows that public servants use similar accounting reports and information in different ways and that their use is dependent on their mental or cognitive models, their experiences, education, their work situations and their roles. The participants in this study display “cognitive discomfort” when faced with new forms of accounting reports. The evidence and our understanding of this “cognitive discomfort” is important for our understanding of why change is not easy when reforming public sector accounting and it highlights the need in times of change for designing training programmes that cater for groups with shared cognitive models.

Overall, the range of papers in this issue provides us with interesting insights into the challenges faced by local government around the world and the importance and the developments of accounting and accountability in such setting.

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