CHAPTER 4

Scope of General Purpose Financial Reporting: An Accountability Perspective

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1 INTRODUCTION

Accountability, like transparency, has become one core issue of sound governance in the public sector. Although related, accountability and transparency are two different concepts, the latter regarding information availability and often being pointed as a requirement by the former (Lourenço et al. 2013).

Public sector reforms under the New Public Financial Management stream (Frederickson 1996; Pollitt 2000) have emphasized the importance of transparency as a prerequisite for accountability (Frederickson 1996; Pollitt 2000). As OECD (2001) points out, “access to information, consultation and active participation in policy-making contributes to good governance by fostering greater transparency in policy-making; more accountability.” Therefore, the disclosure of budgetary and financial information (which can be named fiscal transparency) by public entities plays an important role since it is essential to enable citizens’ and other users’ judgments

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regarding the efficiency of public administrations and the proper use of the public resources that are made available to them.

The literature provides a wide range of definitions of transparency and accountability. Probably the most widely discussed concept is that of accountability, which essentially means “the obligation to explain and justify conduct” (Bovens 2007). Political accountability is an extremely important type of accountability within democracies, demanding transparency. Accordingly, while the concept of transparency refers to “unfettered access by the public to timely and reliable information on decisions and performance in the public sector” (Armstrong 2005), accountability is often defined as the obligation for public officials to report on the usage of public resources and answerability of government to the public to meet stated performance objectives (Armstrong 2005; Behn 2001; Wong and Welch 2004; Bovens 2007). In any case, these two concepts are strongly related since information access constitutes the first step of accountability processes (Meijer 2003).

For the purpose of this chapter, it is particularly interesting to consider the notion of fiscal (budgetary and financial) transparency, which can be regarded as “an openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections” (Kopits and Craig 1998, p. 1, cited by Alt et al. 2006). The importance of fostering fiscal transparency on the part of public powers is clear, especially if one bears in mind the need to increase citizens’ trust and, ultimately, improve the quality of democracy. In fact, in order to trust governments, citizens need to feel informed about public powers’ intentions behind fiscal policy, the actual actions taken, and the long-term consequences of specific policies. Furthermore, the access to this, as well as other information within the public sector General Purpose Financial Reporting (GPFR), is also pivotal to other resource providers, such as investors and donors, to increase their trust in governing authorities and public officials, with benefits to public financial management and countries’ economy overall.

Widely recognized in the literature (e.g., Piotrowski and Ryzin 2007; Caba Pérez et al. 2005, 2014), fiscal transparency is largely based on the provision of financial information to citizens and other users. Information is a basic condition to hold elected and appointed officers accountable for their actions. Effectively, accountability is exercised along the chain of principal–agent relationships (citizens, investors, and other stakeholders
are principals, while politicians and public officials are the agents), implying that different needs and requirements might be at stake. Within this context, informational needs arise from the opacity of public sector entities, particularly concerning financial resources usage. Such needs call for data disclosure that would make possible for citizens and other users to realize how public entities are being efficient and effective (Pavan and Lemme 2006), underlining the importance of fiscal transparency defined as the complete disclosure of all relevant budgetary and financial information in an opportune and systematic way.

Democratic accountability requires governments to increase transparency, disclosing more budgetary and financial information to citizens and other stakeholders, promoting public expenditure scrutiny, and ultimately preventing corruption and waste of public resources. Consequently, budgetary and financial transparency, namely via disclosing GPFR, has become a pillar within public (financial) management reforms (Jorge 2019).

Within the International Public Sector Accounting Standards (IPSAS), the Conceptual Framework (CF) (IPSASB 2014, CF 1.4) underlines the role of GPFR in promoting financial transparency by governments and other public sector entities. Yet, questions can be raised about this assertion—despite the wide variety of information disclosed by the GPFR, public sector entities’ accountability implies that the information be understood and useful for its users.

Usually, the GPFR comprises several types of financial and nonfinancial information. The IPSAS CF and IPSAS 1 (IPSASB 2014, 2019) explain that, apart from financial statements, the GPFR of a public sector entity includes information on service delivery activities and achievements in the current period, prospective financial and nonfinancial information (e.g., performance information, expected service delivery, and long-term consequences of current decisions), explanatory information (e.g., accounting policies), and information about compliance with legislative, regulatory, or other externally imposed regulations that affect the entity’s management of resources. Still, the main focus continues to be on financial information, particularly financial statements, which in most countries is accrual-based and derived from business accounting principles and models, which essentially are the balance sheet, the income statement by nature and by function, the cash flow statement, the statement of changes in the net assets/equity, and the notes.

However, due to the importance of budgets as public policy instruments and authorizations for public spending being publicly approved, it
is pivotal within the GPFR of a public sector entity or of a government to include additional information about compliance with public budgets. Comparison of budget and actual amounts (when budgets are published), either as an additional financial statement or as a budget column in the financial statements, is acknowledged as an important component of GPFR in the IPSASs, namely in IPSAS 1 and IPSAS 24 (IPSASB 2019), in order to disclose the accomplishments of the budgets finally approved. Nevertheless, while international standards endorse accrual-based accounting and reporting, in many countries budgets and budgetary reporting are still cash-based (Brusca et al. 2015).

Consequently, despite following a model that goes beyond what is comprised by the financial statements and which is generally broader than in the private sector, particularly due to budgetary reporting information (Jorge 2019), the GPFR in the public sector, especially if IPSAS-based, currently seems insufficient to allow for proper discharge of accountability.

Even if the scope of the GPFR in the public sector continues to focus on financial (and budgetary) information, there seems to be some prevalence of national roots and traditions in public sector reporting over international harmonization. Some countries/governments find the system they have in practice adequate for national policy-making, decision-making, and accountability, in order to increase trust and legitimize their activities (Manes-Rossi et al. 2016). Furthermore, some conflict seems to arise between international and regional public sector accounting harmonization, such as the one emerging in Europe (Aggestam and Brusca 2016), where region-specific reporting requirements within the EU call for a different type of accountability, including considering the link to the National Accounts (Caruana et al. 2019).

Finally, different users’ needs nowadays go beyond the traditional financial and budgetary information, and require accountability concerning different issues (Manes-Rossi 2019), hence extending public sector entities’ and governments’ reporting to embrace other types of (nonfinancial) information. A few examples concern performance reporting (Steccolini 2004; Cunningham and Harris 2005; Marcuccio and Steccolini 2009), sustainability reporting, integrated reporting, and popular reporting (Marcuccio and Steccolini 2005; Yusuf et al. 2013; Cohen and Karatzimas 2015; Oprisor et al. 2016; Cohen et al. 2017; Guthrie et al. 2017; Biondi and Bracci 2018). The concept of public value accounting, which is still developing, seems to call for yet another reporting type, as...
governments and public sector organizations need to make visible how they create/destroy public value for public interest (Moore 2014; Bracci et al. 2019).

Henceforth, this chapter addresses the aforementioned perspectives as complementary to the traditional accounting reporting which are expected to enhance the discharge of accountability by public sector entities towards citizens and other stakeholders. Section 2 refers to budgetary reporting, followed by performance reporting in Sect. 3; sustainability, popular, and integrated reporting are discussed in Sect. 4, and finally public value accounting and the potential for a new reporting type are briefly presented in Sect. 5. The chapter concludes with final remarks concerning how the combinations of these perspectives in public sector entities’ reporting may foster accountability.

2 Budgetary Reporting and the Link to the National Accounts—EU Context

Reforms in public sector accounting in the last decades have, among other things, introduced accrual business-type accounting and financial statements, thus allowing for increased accountability, as financial reporting has become more informative than when including only cash-based information. However, these improvements in accountability in the public sector setting can be questioned when the accounting and reporting system comes too close to business accounting (Dorn et al. 2019).

Accrual-based accounting has developed in the business context, where organizations are profit- and market-oriented and there are no public budgets. Accountability is needed from managers to investors on the use of investor money and on how income is generated. In the public sector realm, entities seek social well-being instead; hence it is paramount to show citizens, taxpayers and their representatives (politicians), oversighting bodies, and international organizations how public moneys are used to accomplish those purposes. Investors in markets, donors, and other funders may also require information on the profitability of their financial investments, but reporting on the accomplishment of public policies and sustainability of public services, as well as consequences in taxes, seems to be a prevailing purpose of GPFR of public sector entities and governments overall.
Therefore, even if accrual-based information is recognized as important, most business accounting principles and standards may constrain accountability outcomes in the public sector, as there are specific activities and dimensions to report about, for example, grants, transfers, taxes, and public domain assets (see other chapters in this book), for which market-based recognition and measurement criteria are not adequate, hence often leading to arbitrary estimations.

“Accrual accounting balance sheets ... show the entire intertemporal resource formation and consumption of the government and reflect the scope and quality of the public capital stock more transparently. Accrual accounting reveals the allocation of public resources over time, which may give rise to greater inter-generational equity and sustainable budgeting because under- and overinvestment is reduced.” But “while accrual accounting may provide more information, the information may not be reliable”. (Dorn et al. 2019)

Reporting on the accomplishment of public policies implies budgetary reporting, as budgets are, par excellence, instruments authorizing spending in implementation of legally approved public policies. The cases where budgets are accrual-based are rare (e.g., in Europe, UK, Austria, and Finland in central government; and in Germany in some local governments—see Jorge 2019), as most countries still use cash-based budgets and budgetary reporting (Brusca et al. 2015; Reichard and van Helden 2016). Therefore, accountability, especially towards citizens and their representatives, makes budgetary cash-based reporting perhaps the most important part within the GPFR of public sector entities and governments at large. Despite the introduction of accrual-based financial statements, roots of traditional public sector accounting remain in most jurisdictions. Moreover, the GPFR in each country, even if possibly moving towards the adoption of international standards, tends to reflect different accounting and reporting national traditions and priority purposes (Oulasvirta 2014; Manes-Rossi et al. 2016).

One example of this regards Finland, where the national tradition in accruals in business accounting, imported to public sector accounting, has made the country resist the adoption of the IPSAS (Oulasvirta 2014). The Finish Governmental Accounting Board has not accepted most of the pronouncements of the IPSASB CF, given the national priority to the purpose of accountability (instead of decision-making), prudence and historical cost (instead of market value), as well as the prevalence of the revenue/
expense model, whereby the operating statement is a more important financial statement within the public sector financial reporting than the balance sheet.

Another example is the case of Portugal—while adopting an IPSAS-based accrual accounting and reporting system (even if accrual-based accounting has been existent since 20 years), complementary statements were found important to include in the GPFR, intending, among other purposes, to improve accountability: budgetary reporting and management/cost accounting reporting (Jorge 2019). The former comprises the following cash-based budgetary reporting statements, where expenditure and revenue are displayed mainly according to their nature:

- Budgetary performance statement (reports on the way the budget execution is performed, leading to a budgetary deficit or surplus)
- Revenue budgetary execution statement
- Expenditure budgetary execution statement
- Statement of the execution of the Multiannual Investment Plan
- Notes to the budgetary statements

Cash-based budgetary information and budgetary reporting indeed continue to assume crucial importance (Ramkumar and Shapiro 2010), despite an era of accrual-based financial reporting. Reichard and van Helden (2016) note that, in several countries, budgetary reporting and financial reporting coexist and are decoupled, as the former follows the organization and rules as in the budget, while the latter does not actually report on the budget accomplishment. The authors further explain that “a PSO [public sector organization] may need different accounting systems—cash- and accrual-based—serving different purposes and related stakeholders” (Reichard and van Helden 2016).

Whereas creditors and other financiers may have primary interest in accrual-based information about the financial health of an entity or a government, public sector managers and politicians (and eventually citizens they represent) are more interested in cash-based budgetary information (Reichard and van Helden 2016; Jorge et al. 2019a). Several reasons seem to justify this (Reichard and van Helden 2016):

- Cash movements and language are easier and less ambiguous to understand and communicate—several nonexpert users, such as poli-
ticians, lack skills to properly interpret more advanced accrual information (e.g., depreciation, provisions, and deferrals).

- Main actors have longer and major expertise with cash-based budgetary reporting than with accrual-based financial reporting—not only politicians and public managers in understanding, but also civil servants in preparing; parliamentarians also better understand cash language when authorizing budget appropriations to be spent by government and when requiring accountability on those.
- Cash-based budgetary reporting is closely related to medium- and long-term fiscal policy, which politicians are more concerned with.

“Politicians are mainly interested in budgetary affairs including appropriations and comparing actual and budgeted appropriations; … accrual information in reports only receives little attention, irrespective of whether budgeting is cash- or accrual-based” (Reichard and van Helden 2016). Fundamental budgeting logic also explains that cash-based budgetary reporting continues to be seen as a fundamental instrument for accountability, especially from governments to parliaments, as it allows comparing cash-based appropriations with actual cash outflows, hence being an easy and straightforward control mode (Reichard and van Helden 2016). The value-added of accrual-based budgets and accrual-based financial reporting are yet to be explained and understood by the main users, especially by politicians and public managers, and even by those who assist them in preparing financial information for their use (Jorge et al. 2016, 2019a).

In the international reporting sphere, budgetary information, regardless of whether it is cash-based or accrual-based, is also the one used for international accountability purposes (Ramkumar and Shapiro 2010). Within the European Union (EU) context, Member States have to report on the accomplishment of convergent fiscal policies. While this reporting is based on the European System of Regional and National Accounts framework (ESA 2010), which allows preparing of the National Accounts (financial statistics), these are based on information that comes from public sector and governmental accounting, notably essentially from budgetary reporting, for most EU members, and is still cash-based. Because the National Accounts endorse an accrual-based reporting system, year-end adjustments need to be made when translating data from governmental accounting to the National Accounts, which may allow creativity/discretion and raises questions about the reliability of the data finally reported (Jesus and Jorge 2015). These data are the basis for monitoring Member
States’ fiscal policy, such as the convergence criteria (public deficit and public debt) underlying the Euro currency.

Nevertheless, within the EU, mainly for supranational accountability reasons, there is a need for an ‘integrated’ reporting, linking accrual-based financial statements, cash-based budgetary reporting, and financial statistics reporting (Dabbicco 2018; Jorge et al. 2018; Montesinos et al. 2019).

Since 2013 the EU has embarked on a project to develop European Public Sector Accounting Standards (EPSAS), addressing more technical issues starting from 2016. EPSAS, when they come to exist, are supposed to allow not only regional harmonization among EU Member States’ public sector accrual-based accounting and financial reporting (Aggestam and Brusca 2016), but also convergence with the reporting under the National Accounts and the ESA (EC, Eurostat 2013). EPSAS aim at more reliable reporting by EU Member States, regarding the debt and deficit levels as required by the Maastricht Treaty (EC, Eurostat 2017). However, these standards are not expected to address budgeting or budgetary reporting, given that this follows budget laws often specific to each country.

In order for the EPSAS to achieve the ambitious target of being viewed as building blocks that could bridge the gap between micro- and macro-reporting levels, the input of various disciplines is required.

The EPSAS might be seen as a multi-disciplinary project, in which actors from different fields [accountants, auditors, lawyers/public administrators and policy-makers, economists, statisticians, …] work together, each drawing on their disciplinary knowledge and methods, using a real synthesis of approaches. (Jorge et al. 2019b)

Therefore, it can be said that EPSAS targets the improvement of public sector financial accountability within the EU. But, to fulfill this purpose, as underlined by Caruana et al. (2019), several issues need to be considered:

- A proper development of EPSAS requires a “concerted multi-disciplinary approach” to bridge the gap between conceptual differences that are likely to remain between financial public sector or governmental accounting, budgeting, and National Accounting; this would benefit from increased collaboration between professionals and academics in these three fields, combining their knowledge in a holistic involvement.
Specific and particular characteristics of the public sector need to be attended to, namely the central role of budgets and budgetary accounting (rather than the balance sheet).

Reliability of whatever reports are to be considered points to an increased role of auditing and proper audit procedures that secure the required public oversight.

3 Performance Reporting

The concept of accountability in the public sector has changed over the last decades. The notion of accountability towards the parliament regarding the budget accomplishment has changed to include accountability of public management performance (namely efficiency and effectiveness) towards the customers/citizens. This has implied changes in the way public sector entities’ performance is evaluated, including nonfinancial measures and new ways of reporting and communicating these to stakeholders (Steccolini 2004; Oprisor et al. 2016).

Brusca and Montesinos (2016) explain that the financial information provided in the accounting and budgetary statements of many public entities is insufficient to achieve public sector accounting objectives and needs to be supplemented with performance information. Performance is measured and reported by means of performance indicators that account for the economy, efficiency, and effectiveness of public resources. Performance reporting is a means to disseminate information to stakeholders on public sector entities’ performance for accountability purposes.

Therefore, performance reporting has been claimed worldwide as a means to achieve increased public accountability by public sector organizations and governments, leading to greater efficiency and effectiveness in delivering public services (Cunningham and Harris 2005). Performance reporting is also often associated with enhancing the entity’s reputation and legitimacy and external support next to citizens and other stakeholders. Nevertheless, its implementation often results from external coercive and political pressures (Gomes 2018).

The existence of a uniform statewide (management) accounting system, as well as political-level support, are key issues for the implementation of performance reporting (Cunningham and Harris 2005).

The relationship between performance reporting and accountability in the public sector is based on the idea that the former, being externally oriented, supports monitoring the actions of politicians and public
managers, helps learning and improving, namely by comparing actual performance with expected results, and can be used as a benchmark (Gomes 2018).

Cunningham and Harris (2005) evidenced several functions and benefits of performance reporting in public sector entities:

- It contributes to the (internal) management process—it requires clear definitions of responsibilities and of the relationship of the performance to the entity’s objectives; it is integrated in the strategic and business plans system, being closely linked to the budget activity.
- It has (external) control function, though with some flexibility, given that the report tends to focus on end-line indicators (regardless of the policies to reach them); still, the reporting of performance to the parliament and central government or to the public motivates public managers or (local) politicians to pay attention to those indicators.
- It allows improving and communicating the results of the governmental activity and therefore enhancing accountability.
- The visibility of the performance reporting process is viewed as causing public sector entities to be more accountable, allowing for better monitoring of public policies and of the budget.
- It includes performance indicators that may be centrally defined as a homogeneous and standardized framework, allowing for comparability between entities and local governments, as well as for auditing the results; these are also easy to be externally communicated, for example, using the media.
- The performance indicators to be considered in performance reporting may be defined by the public, especially in the context of local governments, increasing public engagement in the entities’ management.
- It allows for enhancing communication, performance information being used in the budget and other legislative processes and by legislative committees.

"Top-level control combined with incentives to use performance measures in local management, and the flexibility of local managers to manage on their own," is favorable to performance reporting being seen as an accountability tool. But, if there are reasons for accepting the ability of performance reporting systems to achieve accountability and effectiveness in government entities, "performance reporting systems per se are not sufficient
to achieve the desired accountability and effectiveness and (...) the ability of the system to foster communication is more important than performance indicators themselves” (Cunningham and Harris 2005).

Performance evaluation and reporting in government organizations are considered complicated tasks given the multiplicity of actions and objectives to which they are subjected, adding to the existing political pressures. Nevertheless, the systematic monitoring and evaluating of public sector activities, and communicating the results via performance reporting, have been pushed by the increased overall request for accountability, transparency, efficiency, and responsiveness (Gomes 2018).

Accordingly, performance reporting of accountability is strongly associated with the need to measure, report, and manage public sector organizations’ performance (Gomes 2018). Performance measures, namely indicators, are therefore important components of performance reporting (Cunningham and Harris 2005; Van Helden and Reichard 2018).

There are several types of performance indicators of a public sector organization that can possibly be included in the performance reporting, which embraces the whole of the transformation process of the organization: single indicators of inputs, throughputs, outputs and outcomes, and efficiency and effectiveness indicators resulting from combining the former performance indicators. “The organization often defines objectives with regard to its transformation process. An objective is translated into measurable aspects through performance indicators (PIs), and subsequently targeted (ex ante) and realized (ex post) figures about these PIs are compared, both for accountability reasons and for considering corrective actions” (Van Helden and Reichard 2018). The users of this performance information, while they may be internal to the organization (managers for decision-making and management purposes), are to a large extent external, inasmuch as public sector organizations report on performance for the purposes of external control and accountability, for example, to inform oversight authorities, the parliament, media, or citizens (Van Helden and Reichard 2018).

In the performance reporting process, there is a risk of too much concentration on the definition of indicators, targets, and monitoring, more than in the reporting itself, namely for accountability towards citizens and customers. Additionally, output measures tend to be used instead of outcome measures, because the latter are often difficult to define and sometimes not controllable by the organizations. Yet, most of the time, output measures are not so important to the public, who pay better attention to qualitative factors (Cunningham and Harris 2005). Moreover, public
sector organizations need to report on the accomplishment of societally relevant goals (Van Helden and Reichard 2018).

The literature has shown that, for accountability, as for decision-making purposes, often, several stakeholders do not appreciate financial information. Technical complexity inherent to financial information, especially if accrual-based, makes nonfinancial performance information the preferred type, namely by politicians (e.g., Askim 2007; Liguori et al. 2012; Jorge et al. 2019a) and also by those they represent, that is, citizens. Except for some rare experts (e.g., the media or public commentators), citizens do not use public sector financial information directly, but resort to ‘information brokers’ (e.g., journalists) in order to understand such information (Lourenço et al. 2016).

Steccolini (2004) evidenced that the annual financial reporting, often seen as a medium to discharge external accountability, may not be enough for that purpose in the local government. Financial reporting seems to be used essentially by internal users to the organizations, if read at all. Therefore, if local authorities merely comply with legal pronouncements and report financial information, sometimes not even accrual-based yet, they do not discharge enough accountability to external stakeholders, namely citizens. Without performance reporting, or with a type of financial reporting where service performance evaluation is not given enough importance, the role of annual reporting as a tool for accountability is questionable. This reporting should provide “comprehensive, understandable and reliable (financial and non-financial) information” to be the “basis for the evaluation of the public organisation’s actions and results” (Steccolini 2004). It should also allow stakeholders to monitor governmental activities and results, and to be involved in the definition of governmental objectives.

The IPSASB has also acknowledged the need to complete GPFR with performance information, issuing Recommended Practice Guidance (RPG) 3 for reporting service performance information (IPSASB 2015). Performance information is regarded as important as long as it meets financial reporting objectives and qualitative characteristics. The boundary and period of performance reporting is the same as the one for financial reporting. Performance indicators (both quantitative and qualitative) are recognized as the main important tools to assess and report on service performance objectives; total costs of the services are also included in the information to be displayed. It should be considered planned and actual information for the reporting period, as well as actual information for the
previous reporting period. Performance information reports are also to include cross-references to the financial statements where appropriate, contributing to a more comprehensive GPFR (IPSASB 2015, §§38–40). Professional judgment may be required in deciding what service performance information should be disclosed to users, so that they understand the basis of the information disclosed, and receive a concise overview of the entity’s service performance.

RPG 3 establishes principles for reporting service performance information which are important to understand the purposes of performance reporting (IPSASB 2015, §§32–37):

- An entity should present service performance information that is useful to users for accountability and decision-making purposes, so this information should allow users to assess the extent, efficiency, and effectiveness of the entity’s service performance.
- When used in combination with the information in an entity’s financial statements, service performance information should enable users to assess the entity’s finances in the context of its achievement of service performance objectives and vice versa.
- Service performance information presented should take into account the entity’s specific circumstances, namely the services that the entity provides, the nature of the entity, and the regulatory environment in which the entity operates.
- Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity’s service performance achievements; and the information reported should be sufficiently detailed for users to hold the entity accountable for its service performance, particularly its performance with respect to its service performance objectives.
- Comparability to other entities can be difficult to achieve in the context of service performance information, since diverse services are provided. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation of the entity.

Regarding the organization of service performance information, RPG 3 suggests the elaboration of the “statement of service performance,” which involves organizing information into a tabular or statement form (IPSASB
This statement will support understandability and comparability of (quantitative and qualitative) performance indicators, which are the basis for the success of performance evaluation and reporting. However, in cases where service performance information is provided in narrative form, a mixture of these case studies with tables has to be considered (IPSASB 2015, §79).

Performance management systems have been developed since several years in many countries, with a special predominance in local government. Therefore, one may say that there is already some experience with performance reporting practices (Van Helden and Reichard 2018). Brusca and Montesinos (2016) compared the state of performance reporting practice in several countries, showing different states of development, with countries like Australia, Canada, and the United States being in a more advanced situation than France, Italy, Portugal, and Spain. Gomes (2018) also explains that many countries started including performance reporting as a complement to financial reporting, and the development of performance reporting systems has been influenced by different contexts and by the successful introduction of the New Public Management (NPM). In some jurisdictions, public sector entities’ performance reporting is required by law, while in others it is voluntary, hence depending on the public sector entities’ will to enhance accountability and inform decision-makers on nonfinancial performance matters.

Marcuccio and Steccolini (2009) showed how, in the context of local authorities, voluntary extended performance reporting practices emerged, while only financial reporting (namely budgetary accounting and accrual-based financial statements) had been extensively regulated. This voluntary behavior seems to have signaled the weakness of existing compulsory legal reports. Performance reporting appears as an additional effort for organizations to communicate performance to external stakeholders, hence reinforcing accountability; it was noted as a specific reference to the results achieved in social and economic development areas. A clear link was evidenced between the content of voluntary performance reports and the local authorities’ type of activities performed and strategic priorities.

Overall, organizations seem to resort to voluntary performance reporting to disclose strengths of specificities of their governance and management, to overcome the fact that traditional accounting and reporting systems are not always effective communication tools. Accordingly, there is no standardized model of performance reporting. If performance
reporting is to also serve as a benchmark across comparable organizations, it seems desirable that a general model should exist, given that a variety of models may put accountability into question (Marcuccio and Steccolini 2009). A legally imposed performance reporting model would perhaps be desirable, at least at a national level, as there is evidence that, in this way, it would lead to a wider implementation (Cunningham and Harris 2005). However, undesirable behaviors could raise resistance to such coercion. Maybe because of this, several performance reporting practices in the public sector have been issued in the form of non-legally binding recommendations (IPSASB 2015; Brusca and Montesinos 2016; Gomes 2018).

4 SUSTAINABILITY, POPULAR AND INTEGRATED REPORTING

Pressures towards greater accountability by public sector organizations and governments overall have increased under the NPM stream, whereby informing external stakeholders, especially citizens, about the use of public resources should contribute to increase engagement in public policies and management. However, nowadays, as discussed in this chapter, it is generally accepted that the annual financial reporting (either in single format or consolidated) hardly responds to the needs of most users of information of public sector organizations. If it can satisfy needs of users such as internal managers and financial directors, or external financial analysts, investors, and overseeing bodies, it clearly does not meet information needs of external stakeholders, such as citizens (taxpayers or public service consumers) or companies located in a certain territory (Manes-Rossi 2019).

Traditional financial reporting is considered capable neither of depicting the real impact of public resources on outcomes (Steccolini 2004) nor of fulfilling the accountability needs of the wider nonexpert citizenry. Financial accounts present only one standpoint of the organizations’ reality, and are too complex, requiring accounting-specific knowledge to be understood (Biondi and Bracci 2018). “Consequently, there is a need for accessible, timely, objective and clear information, which can be understood by non-specialists” (Manes-Rossi 2019). Therefore, new accountability tools have been proposed, namely sustainability reporting, integrated reporting, and popular (financial) reporting. Another additional concept seems to be emerging—an integrated popular reporting (Manes-Rossi 2019). None of these frameworks of external reporting to stakeholders
has, so far, binding standards for public sector organizations (Biondi and Bracci 2018).

Sustainability reporting, popular financial reporting, and integrated reporting have been seen as different accountability innovations. However, Biondi and Bracci (2018) underline that they “may end up just in a fad or fashion uptake,” not leading to the intended effects of increasing accountability, but merely constituting a managerial fashion. All these reporting tools seem to be more shaped by the preparers (international bodies and the organizations adopting them, for political legitimacy) than customized for the users’ perspective. The authors also alert us to the fact that, due to more commonalities than differences between these types of reporting, the improvements in effective public accountability when passing from one to another may not be significant, as they may appear as similar concepts with new labels.

4.1 Sustainability Reporting

NPM reforms and United Nations pressures for attaining sustainable development goals have brought to the public sector realm concerns about reporting on social and environmental matters, especially since the 1990s (Giacomini et al. 2018; Manes-Rossi 2019). Social and environmental reporting (focusing on performance of social and environmental policies), today more commonly known as sustainability reporting, started to be introduced in public sector organizations inspired by the search of increased sustainability and democratic accountability (Marcuccio and Steccolini 2005; Biondi and Bracci 2018). It has to report in the impact of the output produced by public sector organizations on the community and on the environment (Manes-Rossi 2019).

As a separate report or part of the annual report, sustainability reporting started to be seen as a way to complete the GPFR, enhancing organizations’ external communication, increasing their legitimacy, and allowing them to deal with the emergence of environmental and sustainability issues. It may be seen “as a response to the … weaknesses of accounting and management control systems in responding to internal and external users’ needs, to the ambiguity and complexity of methods of measuring the performance of public organizations, and to the absence of performance evaluation guidelines” (Marcuccio and Steccolini 2005).

Several overall reasons for public sector organizations to adopt sustainability reporting may be leadership, accountability (legitimacy),
stakeholder engagement (building trust), and financial benefit in accessing capital (Farneti and Guthrie 2009; Manes-Rossi 2019). Marcuccio and Steccolini (2005) classify the reasons for adopting sustainability reporting in public sector organizations (namely local authorities) into those associated to a rational/technical perspective (economic forces) and/or those within an institutional perspective (sociopsychological forces). The first group includes reasons such as to acquire management tools designed to measure costs and evaluate performance at the organizational and individual levels; to obtain funding; and to acquire management tools designed to govern relations with external partners. In the second group the following reasons can be found: to emulate other entities that have already implemented such reporting; to be seen, internally and externally, as innovative and progressive/pioneer; and to anticipate mandatory practices of sustainability reporting. The latter relate to “willingness to signal the innovativeness and progressiveness of the management techniques,” whereas the former concern “the search for improvements in financial and nonfinancial performance through better accounting, reporting and management systems.”

While both groups of reasons can be combined for the adoption of sustainability reporting, Marcuccio and Steccolini (2005) evidenced that sociopsychological forces often prevail. Accordingly, sustainability reporting may become a management ‘fashion,’ being influenced by ongoing processes of public sector reforms, and not reflecting real sustainability concerns. When reform processes pressure for public managers and politicians to demonstrate conformity to norms of rationality, efficiency, and effectiveness, and to show improvements in financial and service performance, sustainability reporting may not lead to enhanced accountability to the society. It may instead be adopted as a management technique believed as rational and progressive, to show those who scrutinize public managers’ activity about how they perform on conformity with more rational norms and practices.

The Global Reporting Initiative (GRI)1 is the international framework acknowledged to support the preparation of sustainability reporting (Farneti and Guthrie 2009). But its comprehensiveness makes it difficult to organizations, including those in the public sector, to gather all the necessary information (Manes-Rossi 2019). Therefore, organizations

1 https://www.globalreporting.org/Pages/default.aspx.
Some other constraints have been presented to the adoption of sustainability reporting by public sector organizations: lack of political and management commitment with sustainability matters, reporting on sustainability information not being legally compulsory, lack of resources for implementation (cost issues), and lack of organizational capability overall, namely in small-size entities (Giacomini et al. 2018). In some jurisdictions (e.g., Italian local government), the enthusiasm about sustainability reporting seems to be fading. Initially it was seen as a ‘bait’ to meet citizens’ expectations and increase stakeholders’ engagement. However, as it has become a mere description of tendencies of some indicators, it has lost attractiveness to the public and its role as an accountability tool is diminishing (Giacomini et al. 2018). One way of overcoming this problem may be by promoting the role of this type of report “as a tool to legitimize the local politician’s actions given its provision in political and electoral programs as the result of a sustainable development commitment. This could enhance accountability in the social and environmental aspects.” Furthermore, because entities tend to focus on mandatory financial reporting obligations, especially when resources are scarce, perhaps if sustainability reporting comes to be legally compulsory (recognized standards), its intended accountability effects may become effective (Giacomini et al. 2018). Moreover, a binding regulatory framework could also allow for a more standardized reporting model, allowing for comparability and benchmarking of sustainable development practices.

Governments and public sector organizations overall have a central role in implementing sustainable development goals, ensuring a socially responsible society and a more sustainable future. Becoming a widespread practice in the public sector, sustainability reporting can increase the interest of public opinion in social and environmental issues. The interest of sustainability reporting in the public sector may also be enhanced if reporting and sustainability accounting models that more adequately suit the public sector are developed and disseminated (Marcuccio and Steccolini 2005).

4.2 Popular Reporting

As it has been made clear in this chapter, constant pressures for more accountability have required public sector organizations to adopt new...
forms of reporting. Another of these alternative tools for communicating effectively to the stakeholders has been popular reporting (Steccolini 2004; Biondi and Bracci 2018), which can therefore be presented as a document supposed to facilitate communication between governments and citizens (Manes-Rossi 2019). Compared to sustainability reporting (and integrated reporting), popular reporting addresses mainly the citizens, while the other types of reporting address several stakeholders (Biondi and Bracci 2018). It started as “a movement targeting [] the preparation and publication of reports especially addressing citizens’ profile” (Cohen and Karatzimas 2015), acknowledging that poor financial reporting and budgeting tools could impair democratic accountability.

Popular (financial) reporting can be defined as a simplified (not simplistic) report that provides financial information concerning government entities and governmental activities in a comprehensive and simple manner, in order to be understood by users who are not familiar with accounting and financial management issues (Yusuf et al. 2013; Cohen et al. 2017; Manes-Rossi 2019). Targeted users of popular reporting include typically citizens, businesses, the media, and community groups interested in understanding the dynamics of government finance. Average citizens find typical governmental financial statements too long, complicated, and confusing. Therefore, it is important to provide such information and improved transparency and accountability by delivering more user-friendly financial reports, helping non-accounting experts understanding traditional financial reports (Cohen et al. 2017; Biondi and Bracci 2018). Still, people with a lower level of instruction tend to have more difficulties in understanding the information provided by popular reports, which points to a need of giving privilege to more qualitative (not so technical) data (Biancone et al. 2016).

Popular reporting is believed as “important for facilitating communication pathways between government and citizens, and fulfilling the democratic goals of accountability and transparency in governance” (Yusuf et al. 2013). It aims at sustaining citizens’ trust on government, and encourages citizen engagement in the decision-making of public organizations (Biondi and Bracci 2018). Popular reports are tools governments can resort to for developing informed, invested public participation (Jordan et al. 2016). One of the objectives of popular reporting is also to contribute to the construction of a democratic political system, through equality in access to governmental financial information among all citizens (Oliveira et al. 2018).
This type of reporting started in the 1990s and is quite widespread in the USA, Canada, and Australia, at local government level (Yusuf et al. 2013; Biondi and Bracci 2018; Manes-Rossi 2019); to a lesser extent, a similar type of information is also distributed to citizens in some European jurisdictions, for example, the UK (Manes-Rossi 2019). But, in principle, popular reports can be developed regardless of the accounting regulations and principles applied (e.g., national standards, IPSAS, or EPSAS), the time frame (budget and/or end of the year report), and the level of government (central, regional, or local) (Biondi and Bracci 2018).

The North American professional organizations—Governmental Accounting Standards Board and Government Finance Officers Association—started developing popular reporting in an effort to unite the concepts of financial reporting and of municipal communication (Oliveira et al. 2018). These organizations, together with the Association of Government Accountants, developed different types of popular reports—Popular Annual Financial Reports, Service Effort and Accomplishment Reports, and Citizen-centric Reporting—and agreed on some general principles to be followed when preparing popular reports (Jordan et al. 2016). Mostly relying on information of official financial statements, popular reports should be visually appealing (e.g., with graphic presentations, diagrams, and charts), clear and understandable (avoiding complicated and technical terms), with fewer pages, and including relevant community-oriented information, such as population figures, regional characteristics and government goals for the community, performance report on key missions and service, and detailed expenses and revenues (e.g., investments, expenses per areas, taxes) (Jordan et al. 2016; Cohen et al. 2017). The information should be future-oriented, namely looking at the year ahead. Biancone et al. (2016) evidenced suggestions citizens themselves made of nonfinancial information to be included in popular reporting, referring to cities’ work policies, architectural barriers, policies in favor of victims of violence, policies for the new hires, names of sector managers, and councils with financial capacity.

Despite general common guiding principles, popular reports do not follow binding standards; they are not comparable either, as cities and organizations tend to develop their own model/contents, disclosed on voluntary basis, leading to large diversity. This also creates limits to the auditability, hence reducing the validity of the information included in these reports (Yusuf et al. 2013; Biancone et al. 2016; Biondi and Bracci 2018).
As to the possible actors within public sector organizations involved in the preparation of such reports, Yusuf et al. (2013) evidenced finance and budget departments as the most frequently implicated. However, other actors are city/county managers, communication and public relations staff, executive officers such as the mayor or council members, and the auditing department. The technology department and the department of management services may also participate, though with reduced contribution. This reveals that often organizations’ concerns go beyond financial information, seeking to show “the ‘big picture’ conveyed by the numerical data” (Yusuf et al. 2013).

As interesting example is the popular report of the city of Turin (Italy) (Biancone et al. 2016), started through a collaboration with the local university, which provided the knowledge and expertise needed, evidencing how the academics provided the legitimation for the development of the project (Biondi and Bracci 2018).

Several reasons have been identified for local governments issuing popular financial reports, including informing citizens of their government’s finances (transparency), addressing citizens’ needs for financial information (accountability), and increasing citizen engagement and public participation (supporting governments and involving in public policies decision-making). Additionally, evidence was found that “local governments’ decisions regarding the adoption and practicing of popular reporting may be driven by specific management and local constituency factors not measured (e.g., responding to government scandals, citizen trust concerns, performance management emphasis, etc.) instead of sociodemographic and political factors” (Yusuf et al. 2013).

In other words, popular (financial) reports are important to inform common citizens about government’s finances, for reasons related to accountability to taxpayers and voters, transparency, and knowing where and how government resources are used, as well as the contributions of information and knowledge being better engaged (Oliveira et al. 2018). However, to be effective, they need to include information that is relevant to citizens—“to be of value to citizens, the information provided must be in context and relevant to issues that citizens care about. Information also needs to be provided that allows a basis for understanding the impacts on citizens” (Jordan et al. 2016). Also, popular reports have to be made accessible to the general public, using formats and mediums to easily reach their target addressees. Preferable dissemination means have been displaying the reports online, on the organizations’ official websites, or making them
available in printed format in city halls and other administrative buildings, and in public libraries (Yusuf et al. 2013; Biancone et al. 2016; Cohen et al. 2017). However, these means of dissemination assume that constituents are interested enough to actively look for the information. Mailing to citizens, namely in a printed format, and distributing in selected events (e.g., local conferences, meetings, and fairs) and as press releases, are less preferred, perhaps due to the high costs involved, compared to possible low effectiveness in attaining the intended effects (Yusuf et al. 2013).

Other experiences have been considered (Biancone et al. 2016): sharing popular reports on social networks, namely the institutional Facebook profile of the city, recording comments about contents obtained by the social media interactions; making annual public presentations where printed copies are distributed, this distribution being also done to professional associations and unions in the city; distributed directly to citizens using iPhone applications; publicized in a specific banner at bus stops and in buses themselves; developing a specific website dedicated to the city’s popular reporting; and disseminating leaflets in hairdressers’.

Despite the undisputed usefulness of popular reporting as an accountability medium, international experience reveals a lack of active dissemination of popular reports from reporting entities to citizens. Some (local) governments do not seem to see popular reports as “an avenue for gaining active citizen involvement. Whether this is because the majority of local governments simply are not interested in or concerned with involving citizens in the decision making process, or because they believe there are better avenues than popular reporting for gaining this involvement, is not clear” (Yusuf et al. 2013).

On the other hand, citizens do not seem to be so interested either. Alternative ways of disseminating (e.g., Internet, social media), as well as certain presentation formats, can be used to attract citizens’ interest, making them more aware of popular financial reporting contents, hence enhancing its use. Compared to the paper-based traditional format, the Internet is seen as a more efficient medium to increase reporting frequency, and improve visibility via better presentation and format (Cohen and Karatzimas 2015; Cohen et al. 2017).

Even if citizens may value information disclosing regardless of the format, the presentation format of a given popular report has indeed different value to users, and this can be boosted by using modern technologies such as the Internet, which therefore appears as a potent mean to support accountability and citizens’ engagement in government strategic decision
processes (Lourenço et al. 2015; Cohen et al. 2017). The format of popular reporting that better satisfies citizens’ needs (in terms of usefulness and ease of use) can be analyzed by considering several dimensions: information quality (scope, completeness, and clarity), visual appearance, website navigability and usability, overall citizen satisfaction, and the effect of each format to the municipality image (Cohen et al. 2017). Among different possible formats of popular reports, the preference for websites specifically developed for that purpose (over PDF reports or flipping books, for example) evidences that new technologies can be strategically used by public sector organizations, namely in the local government context, to enhance democratic accountability in what concerns disclosing financial information to effectively reach citizens overall. Moreover, new technologies combined with the Internet allow overcoming dependence on other means (e.g., media) for this, also reducing printing costs and maintaining mailing lists, “permitting data merging and processing, linking to additional sources, [and] real-time open data updates” (Cohen et al. 2017).

Apart from content and dissemination issues, several other challenges to the preparation of popular reporting have been evidenced, namely by those who do not (yet) use this tool: lack of knowledge about it; the use of other means to provide such information; rarity of use by the public (more interest in the budget); not believing that this reporting is the adequate method to communicate with citizens; and lack of financial and personnel resources to prepare it, as it is also very time-consuming. Therefore, mainly due to resource constraints, popular reporting is often not a priority (Yusuf et al. 2013).

4.3 Integrated Reporting

A more recent concept of reporting coming from the business companies’ context is that of integrated reporting (Manes-Rossi 2019), which seems to have derived from extending the concept of sustainability reporting, hence also endorsing sustainable development matters (Guthrie et al. 2017; Biondi and Bracci 2018). Integrated reporting has been seen as a new accountability enhancement tool for public sector entities (Oprisor et al. 2016).

Integrated reporting is one single document prepared by an organization, including financial and nonfinancial information, embracing information about all forms of (tangible and intangible) resources that are considered important for the organization’s long-lasting prosperity (IIRC
2013; Cohen and Karatzimas 2015; Biondi and Bracci 2018). According to the International Integrated Reporting Council (IIRC), it is a strategic and future-oriented communication tool between the entity and its stakeholders. The IR Framework explains that “an integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.” The underlining idea is that an organization uses resources of different natures—the so-called six capitals (financial, manufactured, intellectual, human, social and relationship, and natural) (IIRC 2013)—which should interact to “create value [for stakeholders], thus augmenting all the various capitals” (Manes-Rossi 2019).

The intent of integrated reporting is to ensure that organizations report on their building or depletion of any of the capital sources. (Adams and Simnett 2011)

Preparing and implementing integrated reporting in not only about information disclosure. It compels organizations to think holistically about their strategy and plans, analyzing the impacts of their activities on the different capitals. ‘Integrated thinking’ (Adams and Simnett 2011; Guthrie et al. 2017) “implies that all actors inside an organization share a common vision and values and that strategies, programmes and operations are designed coherently” towards integrated decision-making and value creation over time (Manes-Rossi 2019). But these internal dynamics are not easily attained in many organizations. Moreover, the implementation of integrated reporting depends on adequate (management) accounting technologies (e.g., XBRL), political and economic contexts, and internal engagement processes (Guthrie et al. 2017). An integrated reporting approach emphasizes a commitment of the organization to transparency, reducing the level of detail in a report and focusing on a concise representation of the most strategically (qualitative) material issues for the organization (Adams and Simnett 2011; Guthrie et al. 2017).

\[2\] https://integratedreporting.org/the-iirc-2/.
\[3\] https://integratedreporting.org/what-the-tool-for-better-reporting/.
https://integratedreporting.org/.
The following are presented as benefits of integrated reporting for (private sector) organizations (Oprisor et al. 2016): endorsement of a long-term vision and decision-making, leading to more informed decision-making and improved risk management; better assessment of the organization overall and of its prospects by investors and other stakeholders; better resource allocation, according to the long-term objectives of the organization and of the society, contributing to building trust and creating value.

The adoption of integrated reporting in the private sector is still mostly voluntary, being addressed by several “market-driven initiatives,” such as the aforementioned IIRC Framework, and the OECD Guidelines for Multinational Enterprises. The EU Directive on disclosure of nonfinancial and diversity information (2014/95/EU) is one of the rare cases that is “legislation-driven” where the adoption of integrated reporting is mandatory for certain companies (Biondi and Bracci 2018).

Integrated reporting has recently been encouraged in the public sector too, namely via the Public Sector Pioneer Network developed in 2014 by the IIRC (with partners such as CIPFA, the World Bank, and others). One important publication of the Network was IIRC (2016), an introductory guide with the aim of encouraging public sector leaders and their staff to implement <IR> to improve governance, accountability, trust and transparency regarding the use of resources and the value creation process for stakeholders” (Biondi and Bracci 2018). Nevertheless, cases of public sector organizations in the world following an integral reporting approach are still scarce; despite its increasing importance, “there has been more discussion than actual diffusion” (Biondi and Bracci 2018). Proper implementation in the public sector has raised some doubts, namely by academics and some professionals, given that the integrated reporting framework has been designed considering the needs of investors in the context of listed companies, and requires adjustments to be properly adapted to the public administrations setting (Cohen and Karatzimas 2015; Oprisor et al. 2016; Manes-Rossi 2019).

Oprisor et al. (2016) explain that the key dimensions of the integrated reporting framework could be addressed to the public sector organizations, as they are not constrained to the private businesses realm:

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4 https://www.youtube.com/watch?v=EFm0sKeBLh0.
5 https://integratedreporting.org/resource/focusing-on-value-creation-in-the-public-sector/.
• The value creation process is based on flows and elements that are similar in the public sector (such as capitals, activities, inputs, outputs, outcomes); concepts such as value preservation and capital maintenance also suit well.
• The content elements are not restrictive towards public sector entities; there is also strategic planning (e.g., public institutions’ master plans for 5–7 years), connectivity of information (both horizontally, between agencies on the same level, and vertically, between agencies on different levels), as well as stakeholder inclusiveness.
• Certain adjustments can be made, for example, more/fewer capitals, resource limitations addressed, and political dimension inserted in the model.
• The main principles are paramount for the public sector as well, namely those of materiality, conciseness, and which are the stakeholders who need to be engaged.

Integrated reporting is believed to offer the opportunity for public sector organizations to produce a more flexible and meaningful reporting (Adams and Simnett 2011). Considering that NPM pressures to adopt businesslike approaches to delivering public services continue to require new information and measurement criteria, public sector financial reporting must adapt. “Integrated reporting is a new approach to reporting that may represent the next evolution of accounting,” ensuring “reporting is more holistic, strategic, responsive, material and relevant across multiple time frames.” It can become a more widespread practice in public sector organizations, which would “benefit from moving beyond compliance-based reporting to a report that emphasises trust and transparency” (Adams and Simnett 2011).

The core construct behind integrated reporting reveals the matching of several dimensions of public accountability, “thus enabling the reporting system as an accountability tool for public sector entities (allowing users to understand and judge the most important aspects of an organization’s activity)” (Oprisor et al. 2016).

However, several challenges need to be considered, even if the international framework is further adapted and becomes overall acceptable by the public sector (Adams and Simnett 2011):

• Some organizations may not have available the information required to prepare such a report.
• The preparation involves costs that may be difficult to bear by some organizations—size and capability issues need to be taken into account.
• Auditing integrated reports are likely to require material assessment of qualitative elements (e.g., related to social and environmental matters) with which auditors are not so familiar.

Management accounting assumes particular importance in supporting the implementation of integrated reporting in public sector organizations as well, inasmuch as it allows for linking financial and nonfinancial information and facilitates the identification of strategic material areas in the organization (which have to consider public value issues), hence endorsing an integrated reporting logic. Changes in management accounting may therefore stimulate internal reporting and internal thinking (Guthrie et al. 2017).

4.4 Integrated Popular Reporting

From the previous section, integrated reporting appears to be the most attractive tool to promote accountability of public sector organizations, inasmuch as it reports on how they create value over time in the context of each one’s activity/business model. However, it is also clear that implementing integrated reporting within the public sector may be quite challenging, even if an overarching framework is internationally agreed. Moreover, “the length of an IR report may become an obstacle for ordinary people” (Manes-Rossi 2019), so that democratic accountability towards ‘not-informed’ citizens can continue to be quite compromised.

The solution to get the best from this reporting format so that it reaches all citizens may be achieved by combining integrated and popular reporting in a hybrid format—an integrated popular reporting—as suggested by Cohen and Karatzimas (2015) and Biancone et al. (2016). Combining these two reporting perspectives, however, may be found strange, as they point to opposite directions: while popular reporting tries to present financial information in a simplified way, integrated reporting engages additional, not necessarily financial-oriented, material, to the traditional financial reports, making it more complicated to be understood (Cohen and Karatzimas 2015). But, according to Biancone et al. (2016), “the popular financial reporting is a new integrated reporting frontier,” limiting the complexity of the latter.
Integrated popular reporting appears as a “meaningful reporting with potential strategic advantages,” offering “the adequate information matrix for citizens and other [nonexpert] user groups (e.g., politicians, public executives), that are interested to understand the ‘whole picture’ of public sector entities” (Cohen and Karatzimas 2015). Integrated popular reports can be used to intrigue citizens’ interest in governmental (financial) information, hence increasing the possibility of further engagement with public sector organizations, and of participation in collective decision-making. They can be used for definitely changing the role of citizens—“from spectators of changes to influencing players” (Cohen and Karatzimas 2015). Furthermore, these types of reports would allow for the necessary flexibility in the communication process between public sector organizations and the society, enhanced by the use of social media, which could further promote those reports to the general public. Standardization in terms of content and format would not be desirable, as these reports should consider countries’/entities’ specifics in what regards communication needs.

Although not yet applied in practice, integrated popular reporting in public sector organizations, while allowing fulfillment of reporting obligations, provides a holistic overview of the entity with a simplified disclosure approach (Manes-Rossi 2019). But, reporting in this twofold way requires a balance that is not easy to strike—extensive and pluralistic versus concise and easily comprehensive content (Cohen and Karatzimas 2015). Additionally, it is not simple to explain the creation of public value to ordinary citizens.

Another problem with integrated popular reports is related to the objectivity and reliability of their content. Neither popular nor integrated reporting are externally audited, so only financial information included in integrated financial reports can be assured as bias-free and nonselected, as financial statements are the only ones externally audited. The quality of integral popular reporting as a whole would therefore have to rely on internal auditing (Cohen and Karatzimas 2015).

Still, integrated popular reporting can be seen as a way to empower populations and other stakeholders by providing results in different perspectives, but not excessively constraining public managers’ decisions, even if seen as unpopular, taking into account collective well-being and long-term value creation (Biancone et al. 2016).
5 Public Value Accounting and Reporting

The notion of ‘public value,’ adapted to the context of public administration and management, comes from the idea of ‘firm value’ in the private sector, thereby enabling managers to use their knowledge to create value to shareholders using private assets. This idea was adapted to the public and government sectors by Moore (1995). ‘Public value’ is “defined in terms of the many dimensions of value that a democratic public might want to see produced by and reflected in the performance of government” (Moore 2014). A simple definition can be as follows: it is the value created by a government through all its actions, to the society overall, this value being determined by citizens’ preferences. Therefore, citizens must believe that governments produce something of value to them as citizens, becoming arbiters of public value.

Public value may be said to provide a benchmark against which to gauge the public organizations and government policies. Because the public value notion emerges in democratic regimes, accountability requirements impel public sector organizations and governments, at different levels, to (be able to) assess and report on their performance concerning the value contributed to the public or the society. However, the intangible and contextual nature of public value creates difficulties in this assessment.

Moore (2014) develops the basics for a public value accounting scheme, deriving from conventional financial accounting. The underlining idea is that, in public value, there are costs (money spent in inputs, and the use of state authority) and results of the actions of public sector organizations and governments. “Net value is created when the valued results are greater than costs used in producing the desired results.” This scheme reflects on how to account for the value created by public services and collectively owned assets used in the process. Money (to purchase labor and other materials needed to produce the desired results) and authority to make individual actors engage in activities that could improve (or refrain from activities that would harm) overall social welfare are assets transformed as costs (Moore 2014).

However, the revenue side becomes complicated to establish in public value accounting, as “assigning value to the results of government action is … problematic” (Moore 2014). It is difficult to develop an accounting model that captures the (intangible) value of what governments produce.
Somehow, this problem resembles those of performance measurement overall in public sector organizations, namely questions related to get to the adequate outcome indicators.

“The term public value accounting implies a focus on the definition, justification and measurement of public value generated through the production of public services, from both a theoretical and practical point of view” (Bracci et al. 2019). But public value accounting does not seem to be a settled concept yet. It is acknowledged that further research is needed, as public value accounting has not attracted much research, especially coming from the public sector accounting perspective. There is “lack of theoretical contributions by accounting scholars on what public value accounting is and how it can be accounted for”, there are very few studies, mainly on the public management field, regarding methods to account for public value (related to performance measurement and management accounting).

Additional theoretical and practical contributions may come from studies on accountability/external reporting, given that traditional financial reporting methods, as well as other alternative reporting models such as those addressed in this chapter, do not seem to be able to account for public value. Further knowledge needs to be gained about the producers, users, and uses of public value information (Bracci et al. 2019). As external reporting has to attend to these, a new reporting model may emerge, other than performance, sustainability, or integrated, or perhaps extending and combining these previous concepts. For this, it will also be important to understand how public value is perceived by accountants, who most likely will be preparers of this new form of public sector reporting.

If someone wants to govern, or at least manage, the production of public value for public interests, it should at least be able to be accounted for, thereby making “visible” the capacity (or lack of capacity) to deliver and create value through public services and/or public policies. Citizens and other stakeholders will be the main beneficiaries. (Bracci et al. 2019)

Moore (2014) himself claims that progress is needed “in developing accounting schemes that can recognize public value in useful ways”, “improving the philosophy and practice of public value accounting provides a path forward toward enhanced government accountability, improved collective decision making, and continuous learning about what is valuable and possible to do through government action.”
6 Final Remarks

The importance of the GPFR as an accountability medium in public sector organizations is undeniable, just as is the effort that has gone into bringing this closer to stakeholders’, namely citizens’, information needs. In fact, given the inherent accountability obligations of these organizations, namely towards the general public, this purpose has been evidenced in the GPFR in relation to the purpose of supporting decision-making.

It has been overall acknowledged that, nowadays, the addressees of the public sector organizations’ financial reporting are diverse: investors in markets; central governments and parliaments; Courts of Auditors and other national oversight bodies; international oversight and statistics bodies; national statistics authorities; taxpayers and citizens at large; and other, for example, rating agencies and the media (IPSASB 2014; Jorge 2019).

Given that those potential users of public sector organizations and governmental reports present a large variety of information needs and requirements, terms of education, maturity, and expertise, the efforts of improving the GPFR towards the satisfaction of the information needs of all of them have not been enough. These differences are not always compatible and are hard to mitigate, especially considering that stakeholders may change their disclosure requirements. So, accountability obligations, namely towards the general public, are often not completely accomplished, considering that the ‘message’ does not properly reach the relevant ‘audience.’ Especially nonexpert users, such as politicians and citizens at large, are still lost amid the complexity of financial information, often preferring and giving importance to nonfinancial and qualitative matters about public resources management and service delivery.

On the other hand, public sector organizations tend to adopt accounting and reporting innovations for technical and efficiency reasons (e.g., for better management and decision-making support; for making funding easier), but also for legitimation-related institutional reasons (because they are mandatory, or to imitate best practices).

This chapter has addressed reporting practices that, motivated by one or other reasons, have appeared in the public sector realm in order to increase accountability in practice, fulfilling the still existent gap left by traditional financial reporting. These reporting modalities have complemented financial information with other, such as budgetary, reporting, or even alternative nonfinancial information like that about organizational
and service performance, sustainability, and value creation to the main
stakeholders and to the society.

The one that has persisted for longer is performance (nonfinancial)
reporting, which has been in practice for a while in public sector organiza-
tions. However, the fact that it endorses specificities of organizations’ gov-
ernance and management means that binding regulation has been difficult
to establish, especially at an international level. Only general guidance
exists, which may justify the fact that most public sector organizations still
prepare performance reporting on a voluntary basis. Also, performance
indicators to be reported are often not easy to define.

Sustainability reporting has appeared later, as a result of the need for
public organizations reporting practices to embrace sustainability develop-
ment concerns, namely social- and environmental-related. Its preparation
is not mandatory, though strongly encouraged, but the existent interna-
tional guidance, namely from the GRI, is quite demanding, requiring very
comprehensive information, hence creating difficulties and making this
type of reporting not so attractive for preparers in technical terms. Howev-

However, as it happens with the integrated reporting, it is quite attractive
for legitimation reasons.

Popular reporting has been applied mostly at local level in the USA and
in South Africa, and offers an almost natural appeal to reach full account-
ability—transforming the recognized complex financial information into a
simpler and concise reporting model, addressed fundamentally to citizens.
This report has the great advantage of deeply considering questions of
financial information understandability, highlighting how this is important
for effective accountability. It allows considering citizens as true accoun-
tees and coproducers in the public decision-making process. But it requires
citizens to have interest in such information, to understand that they have
these roles to play, and to be willing to engage in a communication process
with public sector and governmental organizations. Moreover, its focus on
citizens may lead to neglect other stakeholders’ information needs.

Integrated reporting has been considered only recently for public sec-
tor organizations. In spite of some guiding principles that have started to
be developed internationally (in a project led by the IIRC), questions still
arise about its relevance in the public sector, as the concept was initially
developed taking into account the context of listed business corporations.
But it appears attractive in the public sector too, as it is able to tell the
whole story’ about how public organizations create value for their different stakeholders. Going beyond sustainability issues and combining financial and nonfinancial information, it comes forward as a more developed form of previous modalities, namely performance and sustainability reporting. However, its comprehensive scope also makes its preparation an exhaustive task. Additionally, complexity and extension lead to an overall lack of understanding (and even interest) by citizens, so again it is not so effective as a new tool to improve accountability.

A new concept is emerging as a possible solution, with enough attractiveness to combine the best of existing models towards full accountability—an integral popular reporting. The underlining idea is that, with this reporting, public sector organizations will be able to provide an integrated overview of their activities and outputs (including of financial and budgetary statements), as well as of value creation, in a way simple enough to be understood by all stakeholders, and particularly by ordinary citizens. Nevertheless, the combination of holistic and simplified approaches seems a difficult balance to strike in practice. There may be a risk of this type of reporting continuing to be quite extensive and difficult to read.

In summary, despite being very well intentioned initially, the reality has revealed that most of the so-called reporting innovations discussed here have not (yet) led to the desired improved accountability. Essentially following signaling and imitation motivations, they have often become mere fashions within the management of public sector organizations, not resulting from true decision-making. As these ‘new’ reporting practices tend to be included in larger reform processes, they often degenerate and become diluted, reappearing later under different names, not really constituting an innovation. The exception is integrated popular reporting, which is rather new and has only started to be conceptually considered.

Also with the exception of integrated popular reporting, all types of reporting discussed in this chapter provide, at least in theory, wider disclosure on policies, strategies, and actions pursued by public sector organizations than traditional financial reporting does. However, they are “still not enough for citizens’ engagement.” As Manes-Rossi (2019) stresses, “to be effective in terms of accountability … reports should be connected with democratic participation initiatives, such as participatory budgeting.”

Moreover, “maybe [it] is time to think about a demand-led approach, rather than a supply-led one in the construction of accountability systems for the general public, to avoid the risk of the diffusion of the new managerial … fashion” (Biondi and Bracci 2018).
An additional important matter to be considered for the implementation of these reporting modalities concerns the reliability of their contents. While external auditing is quite an established practice for traditional financial reporting, it does not apply to most of these new types of reporting (except for performance reporting). However, faithful and trustful information continues to be essential, which is likely to call for extending auditing practices, embracing qualitative information, and enhancing the role of internal auditing.

History tell us that some practices in public sector organizations are implemented and diffused only if they become mandatory. Therefore, without legal coercion, the reporting models addressed in this chapter may be hard to be effectively and generally implemented. On the other hand, making further reporting practices obligatory can create undesirable effects of those being seen and yet another (ineffective) reporting obligation. Still, perhaps it is possible to find a compromising solution. Biondi and Bracci (2018) refer to promotions via national governmental regulations (even if not making the practices mandatory). Manes-Rossi (2019) mentions rewording schemes to encourage such practices, so that any changes do not come to be mere cosmetic operations.

One can think of EPSAS as an example of ‘new’ reporting requirements to public sector organizations in Europe. If European regulations would not allow for a mandatory framework, but just point to a nonbinding guidance, EPSAS’s usefulness can be at stake, or perhaps not, given that cyclic worldwide crises, as the one currently passing (COVID-19), have raised new needs for further public sector reporting improvements. Therefore, EPSAS, as a ‘new’ financial reporting practice, were initially seen as important by some, after the 2009 financial crisis; recently, Member States enthusiasm towards such standards clearly faded. Perhaps the current crisis creates the right context for the EPSAS project to regain prominence, given that new accountability needs arise: it becomes imperative to disclose, in an understandable manner for stakeholders and the general society, the consequences of current public policies in actual and future public resources, public services, and creation of value by public sector organizations and governments overall.
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