

L.s.,

As a possible contribution to the finalization of the conceptual framework, I herewith submit a paper on accountability which I presented at a CIGAR-workshop in September 2008 (Tilbury). In my opinion, accountability is a concept of fundamental importance to external reporting by public sector entities, which could be addressed more thoroughly and independently in the framework.

I also include a summary of my PhD-thesis on external reporting by public sector entities, which I finalized recently (public defence on 25 May, Nijmegen, The Netherlands).

Yours sincerely,

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The accountability objective of external reporting by public sector organizations

Paper presented to the 9th biennial CIGAR workshop Tilburg 2008

Martin Dees, 17th September 2008

1. Introduction

Accountability – or ‘stewardship’ - is generally recognized as an important objective of external reporting, for both private and public organizations. In the public sector, it is also broadly recognized as an important founding concept for external reporting reforms and improvements.

In many theoretical reflections and conceptual frameworks, the accountability objective of external reporting is explicitly positioned in relation to the dominating ‘decision usefulness’-objective. In some cases, it has a ‘status aparte’ besides decision usefulness, in most cases it is treated as an important constituting element within the overarching purpose of decision usefulness. In the latter case, the discharge of accountability is identified as one of the types of decisions to be made by users. In its Draft Consultation Paper on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (September 2008), the IPSAS Board provides an example of this approach:

‘Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. (...) The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- *accountability purposes; and*
- *for making resource allocation, political and social decisions.’*

Despite its presupposed and actual importance to external reporting, the concept of accountability has not been a key subject of theoretical reflection and analysis in the academic accounting literature. As a consequence, the exact conceptual relation between accountability and external reporting often remains unclear, as well as the potential of the accountability concept for the further theoretical and practical development of external reporting.

The Public Administration discipline offers a rich additional source of knowledge which can be used to obtain an in-depth understanding of accountability in the public sector environment, and its possible implications for external reporting by public sector organizations.

In this contribution, I present some key notions on accountability which I found in a selection of authoritative Public Administration literature (paragraph 3), and initially reflect on how these insights could be made relevant to external reporting by public sector organizations (paragraph 4). Before that, however, I will turn to some starting-points available in the accounting literature.

2. Accountability in the accounting literature

Lack of uniformity

The accounting literature does not provide a clear and consistent definition of accountability. As Patton argues: 'In most settings one party (...) is said to be directly or indirectly 'accountable' to another party for something, action, process, output, or outcome. However, the precise meaning and implications of the concept of accountability are often left unclear.' (1992, p. 166). Aspects on which the different meanings may vary are (Patton, 1992, p. 166-170):

- Just reporting, or also providing explanation and justification;
- in- or excluding sanctions and rewards;
- the relation between accountant and accountee: a direct hierarchical relationship based on a contractual relationship between the accountant and the accountee for specific actions, or less obvious ;
- contents: accountability for different things may lead to preferences for different types of information/disclosures;
- the party held responsible: individuals, organizations, or other units.

From the perspective of public managers as accountors, Sinclair adds the accountee as an aspect, and speaks of a 'chameleon-like accountability towards competing constituencies: the public and client groups, the minister and cabinet, the Auditor-General and parliament, to a shifting professional peer group and to themselves.' (1995, p. 231).

Definitions

Definitions of accountability in found in the literature on sustainability reporting and public sector accounting are:

- 'the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.' (R. Gray et al., 1996, p. 38);
- 'an obligation to answer for one's decisions and actions where authority to act on behalf of one party (the principal) is transferred to another (the agent).' (Barton, 2006, pp. 257);
- 'the need for an individual to demonstrate that these tasks have been discharged in accordance with that obligation.' (Broadbent, 1998, p. 425, who describes 'responsibility' as 'the obligation an individual has for the completion of a set of tasks.');
- 'the responsibility for your actions to someone else.' (Jones and Pendlebury, 2000, p. 131).

Rutherford (1983, pp. 13-14) argues that 'accountability' is used in two separate, but interconnected meanings: 'Individuals and organisations are accountable in a broad sense if they are answerable for their conduct and responsibilities. In another sense, they are accountable if they are liable to render an account for their activities. This second, rather narrower, kind of accountability can form part of the wider process of making parties answerable for their actions: information provided in accounts can be used to evaluate the performance of the parties concerned and thus aid those to whom they are answerable in deciding whether this performance is acceptable. Financial reports are an important example of the accounts used in this process.'

Examples of definitions focused on public sector organizations are:

- ‘a statutory obligation to provide, for independent and impartial observers holding the right of reporting their findings at the highest level in the state, any available information about financial administration which they may request.’ (Normanton, 1966, p. 2);
- ‘the duty of all governments and governmental organizations and government officials to report on their accomplishments, if any, that were supported by the governmental resources with which they have been entrusted.’ (Dittenhoffer, 1996, p. 102).

From these definitions it can be argued that, according to the accounting discipline, the essence of accountability is formed by the duty to provide an account of responsibilities (activities, tasks, actions). Accounting - recording and reporting, including explanation and justification – forms a constituting element of accountability in this sense.

Further characterizations

R. Gray et al. (1996) characterize accountability as a two-way relationship (‘contract’) between an accountee (‘principal’) and an accountant (‘agent’), embedded in a social context. The relationship between the parties ascribes responsibility and permits right to information, and thereby determines the accountability.

A distinction is made between legal and non-legal (moral, natural) responsibilities, the non-legal responsibilities being subdivided in ‘quasi-legal’ and ‘philosophical’ responsibilities (

R. Gray et al., referring to Likierman (1986) and Likierman and Creasy (1985).

Because the nature of what is considered to be responsibility is constantly changing and developing, the levels of accountability needed will be constantly changing correspondingly.

Specific dimensions of the accountability of public sector organizations found in the accounting literature are:

- Its explanation from both the power exercised by public sector organizations and the pressure for efficient and effective operating it generates (Barton, 2006);
- Its openness to the public (Coy et al., 2001);
- Its orientation on specific accountability for particular activities rather than general accountability for overall results, caused by the absence of a summary measure of performance (Rutherford, 1983);
- The identification of main principal-agent relations between (1) the voter and the legislature; (2) the legislature and political management (government, chief executive); (3) political management and bureaucracy (Bac, 1996; Chan, 2003; Streim, 1994), and the recognition that public organizations are ultimately formally accountable to Parliament or another democratically elected body either directly or indirectly (Jones and Pendlebury, 2000), notwithstanding the existence and increasing importance of other lines of accountability, e.g. direct accountability to ‘the public’ (Bowerman, 1998; Parker and Gould, 1999);
- Recognition of the acquisition, management/internal control and use of (financial and other) resources as emphasis of the scope of accountability, with regularity, proper registration and reporting, and ‘the three e’s’ as related criteria (Dittenhoffer, 1996; Jones and Pendlebury, 2000; Rutherford, 1983). Parker and Gould (1999) argue that a characteristic of New Public Management’s impact on the nature of public sector accountability has been a concentration upon economic

accountability (or financial performance): ‘Thus accountability has, despite its seemingly multiple categories and forms, been subject to the domination of the accounting discipline.’ (Parker and Gould, 1999, p. 130). This emphasis on the contents of the accountability of public sector organizations is consistent with the primarily ‘economic’ interpretation of the responsibilities of public sector organizations found in the accounting literature. Market regulation and correction, production of goods and services and redivision of income are often seen as the main reasons for the existence of government, and the further specification of their duties is characterized by an emphasis on optimal employment of scarce financial resources obtained through taxation as main objective, and the importance of financial/control-oriented procedures and constraints (laws and regulations, the budget, management- and program cycles and performance measurement) to the realization of this objective.

3. Accountability in the Public Administration literature

Lack of uniformity

Like the accounting the discipline, Public Administration lacks a generally accepted definition of ‘accountability’ . It is qualified as:

- ‘an elusive concept, and ambiguous abstraction, defined in different ways by different authors, with its meaning and characteristics differing depending on the context.’ (Behn, 2001, p. 2);
- ‘a hurrah-word, like ‘learning’, ‘responsibility’, or ‘solidarity’; en als ‘one of those evocative political words that can be used to patch up a rambling argument, to evoke an image of trustworthiness, fidelity, and justice, or to hold critics at bay.’ (Bovens, 2005b, p. 182);
- ‘a rather broad and controversial subject with an equally vast literature.’ (Mayne, 2007, p. 65);
- ‘a fashionable word (...), often used as an over-arching concept covering the institutions, techniques and language of performance measurement, reporting and evaluation in public organizations and private non-profit organizations.’ (Cutt en Murray, 2000, p. 1);
- ‘a complex and ideologically ‘sensitive’ concept, inviting reflection on its historical roots in the philosophies of law and politics, and on its place in public administration science and in administrative ethics.’ (Bemelmans-Videc, 2007, pp. 36-37).

While the concept has gained popularity and importance, it has gained unclarity at the same time: ‘A word which a few decades or so ago was used only rarely and with relatively restricted meaning (...) now crops up everywhere performing all manner of analytical and rethorical tasks (...). In the process, the concept of ‘accountability’ has lost some of its former straightforwardness and has come to require constant clarification and increasingly complex categorization.’ (Mulgan, 2000, p. 555).

Definitions

Examples of definitions found in the Public Administration literature are:

- ‘an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities’. (A. Gray en Jenkins, 1993, p. 55);
- ‘a social relationship in which an actor feels an obligation to explain and justify his or her conduct to some significant other’ (Bovens, 2005b, p. 184);
- ‘to answer for one’s responsibilities, to report, to explain, to give reasons, to respond, to assume obligations, to render a reckoning and to submit to an outside or external judgment.’ (Caiden, 1988, pp. 20, 25);
- ‘the process for meeting the information needs of those to whom one is responsible (either legally or morally). These needs involve information about possible futures, current actions and the results of past actions.’ (Cutt and Murray, 2000, p. 29);
- ‘the condition of being able to render a counting of something to someone’ (simple view); ‘a genus encompassing a variety of species: liability, answerability, responsibility, responsiveness, obligation, obedience, fidelity, and amenability.’ (Dubnick, 1998, pp. 76-79);
- ‘the expectation that an individual will be able to give an account of her or his actions or choices. Account giving (...) involves excuse-making, justification, explaining oneself, offering a rationalization, and so on. It is quite simply the capacity and ability to give an account.’ (Dubnick, 2006, p. 3);
- ‘a process where a person or groups of people are required to present an account of their activities and the way in which they have or have not discharged their duties.’ (Lawton and Rose, 1994, p. 19);
- ‘the obligation to render an account for a responsibility conferred.’ (LeClerc et al. (1996, p. 44, conform Wilson Committee, 1975, p. 9);
- ‘the obligation to answer for the discharge of responsibilities, through explanation to those having a significant legitimate interest in what the decision-makers intend and do. People whose responsibilities and decisions significantly affect the public cannot confine their answering to reporting only to their superiors. The answering obligation, like the answering itself, is both before and after the fact.’ (McCandless, 2002, pp. 22-23);
- ‘a relationship in which an individual or agency is held to answer for performance that involves some delegation of authority to act.’ (Romzek and Dubnick, 1998, p. 6);
- (1) ‘the extent to which one must answer to higher authority – legal or organizational - for one’s actions in society at large or within one’s particular organizational position’; (2) ‘an obligation for keeping accurate records of property, documents, or funds’ (Shafritz, 1988, p. 4).

Bemelmans-Videc (2003, p. 182) relates ‘accountability’ to the concepts of ‘authority’ and ‘responsibility’: ‘The degree and nature of accountability is dictated by (delimitations of an) actor’s authority, as expressed in the direct relation between the concepts of authority, responsibility and accountability: authority is the right to act; (delegated) authority presupposes the allocation of commensurate responsibility; responsibility is the obligation to perform the delegated duties and tasks; while accountability is the obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities.’

According to these definitions, ‘accountability’ is essentially interpreted as an obligation to account and answer for the execution of responsibilities to those who entrusted those responsibilities. These responsibilities are delimited by the actor’s authority. Accountability involves provision of information on, as well as explanation and justification of actions, activities and choices.

Authorities and responsibilities of public sector organizations

The authorities and responsibilities entrusted to public sector organizations constitute the subject matter of the accountability of those organizations. According to the selected Public Administration literature, essentials of these authorities and responsibilities are:

- Their interpretation in terms of public administration on a certain territory, involving binding decision making on determination of policy, either for the governance of society or for the fulfillment of assigned regulatory or service delivery tasks towards citizens. This policy making mainly constitutes of processes of policy development and policy implementation, involves authoritative and binding attribution of values, and is realized from the perspective of the public interest (Van Braam, 1988; Bovens et al., 2001; Rosenbloom, 1993);
- Their realization within the framework of the democratic ‘Rechtsstaat’: public sector organizations operate on a legal basis, their power is executed by means of the law and regulated by law. Their execution is subject to democratic control, by means of accountability (Bovens et al., 2001; Van Braam, 1988; Van den Heuvel, 1994; Raadschelders, 2003);
- Their subdivision in political components (policy development and determination) and administrative components (policy implementation), both politicians and civil servants being involved in both components (Bovens et al., 2001; Van Braam, 1988; Raadschelders, 2003; Rosenbloom, 1993);
- Their interpretation in relation to criteria of good governance: democracy (responsiveness and participation), regularity (legality and proper administration), effectiveness and efficiency, and integrity (ethical conduct). These criteria might conflict, and both political administrators and civil servants are required to realize an appropriate balance in dealing with the dilemma’s between them. The public interest provides an overarching, ‘mediating’ ethical notion to guide the decisions involved (Bemelmans-Vidéc, 1993; Bemelmans-Vidéc et al., 1999; Bovens et al., 2001; Hood, 1991; Lane, 1994; Raadschelders, 2003; Rosenbloom, 1993);
- Their realization in cooperation with other public and private parties (‘from government to governance’), implying an increased relevance of accurate specification of the (final) responsibilities of the public entity involved, possible expansion of these responsibilities with acting as a network manager, increased room for discretion and judgment of public managers, and reconsideration of the relative priority of criteria of good governance (Bemelmans-Vidéc et al., 1999; Bovens et al., 2001; Dobel, 2005; A. Gray et al., 2003; Klijn, 2005; Peters, 2000; Raadschelders, 2003).

Further characterizations of accountability

Other essential dimensions of the accountability of public sector organizations found in the Public Administration literature are:

- A distinction between internal accountability (within a group) and external accountability (in respect of outsiders) (Bovens, 1998);

- A distinction between objective accountability (formal requirement to account as the counterpart to assigned responsibility) and subjective accountability (voluntarily, reflects moral character and personal standards of administrators (Cutt and Murray, 2000));
- A distinction between vertical accountability (hierarchical) and horizontal (non-hierarchical) accountability (Bovens, 2005a). Accountability frameworks are generally built around the core, hierarchical two-party model (principal and agent, forum and actor, accountee and accountant), but extended to recognize a broad range of constituencies with an interest in disclosure of information (Cutt and Murray, 2000);
- A distinction between political, legal, administrative, professional and social accountability, reflecting different accountability fora. Political accountability refers to the common principal-agent relations in the democratic 'Rechtsstaat' (Bovens, 2005a);
- A distinction between democratic, 'rechtsstaat'-related and cybernetical perspectives on accountability. According to the deomocratic perspective, public accountability is important because it forms a means of democratic control over the exercise of public power (Bovens, 2005a);
- The importance of (1) specified expectations about conduct and performance and (2) discretion as preconditions to accountability (Behn, 2001; Cutt and Murray, 2000);
- Its ethical nature: 'public accountability (...) requires reasoned application of moral rules and ethical analysis (...). It is at the levels of moral rules and ethical analysis that we are most likely to be able to account for our conduct publicly in terms that can be evaluated by political officials and the citizenry.' (Cooper, 1998, p. 18);
- Its composition of three main stages: (1) reporting by the accountant; (2) discussion between accountee and accountant; (3) evaluation by the accountee, and (capacity for) consequence: approval or blame, reward or penalty, dismissal or renewal of confidence. Accountability is a means to evaluation and decision-making by the accountees (Bovens, 2005a; Cutt and Murray, 2000; Stewart, 1984);
- Its public nature: accessible to the public (Bovens, 2005a; Friedberg et al., 1991; Mayne, 2007);
- Its broad scope and great complexity relative to accountability in the private sector: 'Public accountability is both wider and deeper (...) Accountability cannot therefore be defined in a single dimension. (...) It has to find many languages to find many accounts. It has to encompass quality and quantity. Public accountability is through a political process which responds to many voices.' (Stewart and Ranson, 1994, pp. 56-57);
- The role of 'codes of accountability', a code of accountability being 'a system of 'signals, meanings and customs which bind the principal and steward in the establishment, execution and adjudication of their relationship.' (A. Gray and Jenkins, 1993, pp. 53-54);
- Its orientation on possible futures, current actions and results of past actions (Cutt and Murray, 2000; McCandless, 2002);
- Recognition of finances, fairness and performance as main dimensions of the scope of accountability (Behn, 2001), also presented in the form of a distinction between 'procedural accountability' (financial accountability and accountability

for compliance) and ‘consequential accountability’ (efficiency and effectiveness, value for money) (Cutt and Murray, 2000). Although accountability for performance has been strongly emphasized in the context of New Public Management (Mayne, 1997), accountability for finances and fairness has maintained its fundamental importance: ‘Although economic efficiency, economy, and competition are important as criteria of accountability, what makes public governance truly public and distinguishes it from private-sector management is its accountability for a unique set of public missions and norms such as representation, equality, impartiality, integrity, justice, and citizenship. This basic normative dimension must be taken into consideration by policy-makers and reformers in articulating the standards if public governance is to be held accountable.’ (Haque, 2000, p. 610).

4. Relevance of contribution from Public Administration

In my opinion, the interpretations of accountability according to the respective disciplines discussed above are not inconsistent, but partially overlapping and mainly complementary. A win-win situation could be reached if scholars from the accounting discipline and Public Administration would adopt each others additional insights or, even better, would cooperate to develop and further elaborate a multidisciplinary approach to accountability of public sector organizations and, from there, a multidisciplinary approach to external reporting by public sector organizations.

Adoption of the key notions of Public Administration by the public sector accounting subdiscipline would imply surrounding the traditional focus of acquisition, management and use of resources by main dimensions of policy development and policy implementation.

An external report from this broad accountability perspective would be a ‘good governance’- report in its full sense, including information on finances, democracy, legality, proper administration, integrity and the three e’s. The report would start with a paragraph explaining the authorities and responsibilities of the public sector organization involved, in relation to the authorities and responsibilities of co-operating other parties. And the necessary explanation and justification would include important dilemma’s faced and choices made. The multidimensionality and complexity of public administration would be better reflected.

A promising perspective indeed, but a challenge also, because external reports could tend to become ‘never-ending stories’. This risk, however, could very well be controlled by dialogue between public sector organizations and their accountees, resulting in agreement on key issues and indicators to be reported for every dimension.

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Summary

External Reporting by Public Organizations: A multidisciplinary theoretical framework from a vertical accountability perspective

There have been substantial changes in the content of the external reports of public organisations and a concomitant increase in the political, social and institutional interest shown in them in recent years. Both these dynamic developments reflect the expectations and ambitions held for public accountability.

It might be thought that a theoretical framework would be in place to analyse and support the development of external reporting and public administration. But this is not the case. Such a framework has been developed in this thesis.

The thesis addresses the following question:

What theoretical framework can be developed for the content of periodic ex-post external reports published by public organisations with a view to their vertical accountability, using insights and considerations from the disciplines of both external reporting and public administration?

Relevant knowledge from both the external reporting and public administration disciplines was gathered, analysed and integrated. The integration centred on the following three core concepts:

1. the powers and responsibilities of public organisations;
2. their duty of vertical accountability and its substance;
3. their periodic ex-post external reporting, specifically to fulfil their duty of vertical accountability.

Although the vertical accountability of public organisations was taken as the starting point, the study also paid attention to the emergence of horizontal accountability.

It was concluded that the two disciplines could be of benefit to each other in the development of a theoretical framework. Extensive study of Anglo-Saxon and Dutch literature found that the two disciplines are not contradictory with regard to the core concepts. In fact, they overlap in certain areas and are complementary in others. The theoretical framework consists of an integrated description of the three core concepts and a description of the main external reporting elements. Building on this approach, the following framework was developed.

1. Powers and responsibilities of public organisations

A public organisation's powers and responsibilities relate to policymaking and policy implementation and to the acquisition and use of scarce resources. These powers and responsibilities must be exercised for the public good. They entail political and administrative actions and are exercised in cooperation with other public organisations and with private actors.

2. Duty of vertical accountability and its substance

Public organisations have a duty to account for the exercise of their powers and responsibilities to the party that granted them. This duty is a safeguard for democratic control of the actions of public organisations. It is fulfilled in a formal, hierarchical and yet dynamic relationship embedded in a social context. The duty is also an ethical concept that obliges administrators to explain and justify their conduct and choices. In essence, it is a matter of both procedures and results.

3. Periodic ex-post reporting by public organisations

Ex-post reporting involves the disclosure of both financial and non-financial historical information for vertical accountability purposes. Four key dimensions of external reporting are proposed:

- I. Context: cooperation with other public organisations and private parties and the allocation of powers and responsibilities.
- II. Procedural aspects (the "How" question): these aspects include democracy, regularity, financial and other resources, integrity and competence. They all relate to the way in which work is performed and the frameworks within which it takes place.
- III. Result-oriented aspects (the "What" question): these aspects include policy development, policy implementation, value for money, efficiency and effectiveness, and the ability to act as facilitator and coordinator in policy networks.
- IV. Dilemmas: dilemmas relate to areas of tension, associated quality criteria for good governance and the importance of serving the public good.

At present, not all these elements are systematically included in the external reports of public organisations.

The theoretical framework shows that the external reports of public organisations are rich and complex. It is recommended that public organisations, in consultation with the bodies to which they are accountable, sharpen their focus.