Satisfaction gap in public sector financial reporting

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Abstract
Purpose – Public information disclosure is a manifestation of transparency and contributes to governance-by-disclosure. Also, better financial reporting can improve the credibility and integrity of public finances and contribute to a better management of public resources. A survey was carried out in Cyprus of users’ of public financial reports concerning an expectation gap about the types of information included in such reports (information needs expectation gap) as well as the quality of such information (information quality satisfaction gap). The paper aims to discuss these issues.

Design/methodology/approach – Two focus groups of users and preparers of public financial reports were used to construct the questionnaire. Users of such reports, who belonged to all three categories of public sector financial reporting identified by IPSASB, were surveyed. The quantitative data obtained was analysed using SPSS and quadrant analysis to answer the research questions posed.

Findings – Data from 101 respondents confirmed that each of the information needs identified in the IPSASB Consultation Paper (2008) was rated as being a significant information need. Data analysis also showed that both types of expectation gap exist, especially as far as local authority and semi-public organisations are concerned.

Research limitations/implications – The response rate in the self-administered survey was admittedly rather low but it was not unexpected mainly due to the survey’s very specialised nature and the tendency by people in Cyprus not to critique public bodies.

Practical implications – Deficient financial public sector reporting means the auditor general is not able to adequately express an opinion on public spending at the local government level. This, in turn, means taxpayers do not get the quality of services they pay for. At the same time, the lack of information transparency means corrupt practices are not eradicated. One answer to the problem would be legislating the content of public financial reports.

Social implications – The lack of governance-by-public exposure means that services to the local community cost a lot more, due to corruption and inefficiency. In addition, it contributes to lowering market confidence and eventually contributes to financial crisis at the national level.

Originality/value – The survey conducted was the first of its kind in Cyprus to investigate financial public sector reporting and document both manifestations of the expectation gap. In addition, information needs identified in the IPSASB Consultation Paper (2008) was rated as significantly needed and this is the first time it has been done in Eurozone member state and in a country facing a financial crisis.

Keywords Financial reporting, Public sector, Cyprus, User satisfaction, Quadrant analysis

Paper type Research paper

1. Introduction
To ensure that citizens and other stakeholders exercise democratic control over the government, they must have access to relevant useful financial and other non-financial information provided by all levels of government and by semi-government entities (Ellwood and Newbury, 2006). As the same authors state, “the citizenry require
accountability from the government – they must be kept informed and can exercise
democratic control over the government” (p. 22). These basic rights and principles of
accountability and transparency go back to Aristotle and the thirteenth century
England Magna Carta. Not only is transparency a key concept but is invoked in a broad
range of areas as a moral imperative associated with such crucial goals as
inclusiveness, accountability, legitimacy and democratic governance (Gupta, 2008).
Furthermore, public information disclosure is a manifestation of transparency,
contributing to what Florini (1998) has termed “governance-by-disclosure”.

Better financial reporting can improve the credibility and integrity of public
finances and contribute to a better management of public resources (Caba Pérez and
bureaucrats to extract bribes exists where “the regulations are non-transparent or are
not even publicly available and an authorization can be obtained only from a specific
officer or individuals” (p. 566).

Where disclosure of information leaves report users dissatisfied it may well be due
to the fact that the report does not live up to their expectations. This expectation gap
can take either or both of the following forms: an “information needs expectation gap”
can exist if the types of information expected to be provided are not made available;
and “information quality satisfaction expectation gap” if the quality of the information
provided does not satisfy the expectations of the users, “satisfaction gap”. The study
reported in this paper has been concerned with both manifestations of the expectation
gap in public sector financial reporting in the Republic of Cyprus.

The last 20 or so years a series of financial scandals, internationally, have
contributed to a decline of public trust in bankers, managers and institutions that are
tasked with supervising and regulating the economic activity. Cyprus has
not been spared such financial scandals. For a number of years now, the annual
report to parliament by the auditor general of Cyprus has highlighted significant
deficiencies in public sector reporting concerning both forms of the information
expectation gap, emphasising that such deficiencies contribute to lack of
transparency and to the waste of public expenditure but, also, facilitate corruption
(Auditor General, 2012, p. 446ff). In other countries (e.g. USA), researchers have
documented serious deficiencies in the information publicly disclosed by a range of
entities. More specifically, in their book Full Disclosure: The Promise and Perils of
Transparency Fung et al. (2007) evaluated 16 targeted transparency policies. They
found that the information provided may be incomplete, or impossible to understand
or irrelevant to the likely users of the information, whether local residents,
consumers, workers or investors.

There has been no single study of public sector financial reporting in Cyprus. The
main aim of the study reported in this paper was to identify deficiencies in the types
and quality of information provided in such reports and to make recommendations of
how best legislators and preparers of the reports could make good the deficits
identified. It is argued that, without ignoring the methodological limitations of the
study, both aims have been achieved. At a time when trust in the economy of Cyprus is
at an unprecedented low level and the country is in the midst of a national financial
crisis, implementing reforms that would improve the quality of public sector financial
reporting would contribute to improving trust in the national economy and, thus, to the
economy’s gradual recovery.

The study reported has identified both manifestations of users’ expectation gap in
public sector financial reporting in the Republic of Cyprus. The study concerned used
a structured questionnaire with a sample of both preparers and users of reports in central government, local authorities and public corporate bodies; in other words, all the categories of users identified by International Public Sector Accounting Standards Board (2008). The response rate in the self-administered survey was admittedly rather low but it was not unexpected mainly due to the survey’s very specialised nature and the tendency by people in Cyprus not to critique public bodies. To illustrate, even though Cypriots lost billions in a government and banking scandal that came to the surface in 2013 and almost caused the collapse of the national economy, there were hardly any public protests about it. Despite its limitations, the survey data analysis yielded original and interesting findings.

The paper proceeds as follows. First, a literature review is provided pertaining to users’ needs and satisfaction level regarding financial and non-financial information in the public sector, and the issues addressed by the International Public Sector Accounting Standards Board (2008, 2013) are outlined to set the basis for the research methodology. Second, the suitability of Cyprus for this study is discussed. Third, the research methodology used is presented and, finally, the findings obtained are reported and the policy implications arising from them are discussed. At this point it is worth mentioning that the Public Sector Committee of the Cyprus Institute of CPAs (ICPAC) commissioned this study. Chairing the committee at the time of writing is the accountant general.

2. Literature review
In the last few years, the public sector accounting profession internationally has been developing and revising a conceptual framework for public sector reporting, to make it more accountable and transparent to the users of financial information. The discussions are not over, since the IPSAB issued another exposure draft, in April 2013. As Attmore (2008, p. 8) stated, “we think of accountability in terms of government’s responsibility to justify to its citizenry the raising of public revenues and the need to account for the use of those public resources”. Due to globalisation, financial crisis and the focus on corporate non-financial information disclosure, the stakeholders are becoming more demanding of the public sector financial reporting (Arvidsson, 2011). It is common to see political and government organisations in developing and emerging economies absorb philanthropic funds donated by international organisations (Luo, 2006). This demonstrates that the users of the public financial information are from a much wider community than one would expect. As part of the community, users of public financial information are engaged in a relationship with the providers of such information.

Several authors (Mauro, 1998, 1997; Tanzi, 1998; Ali and Isse, 2003; Brown and Shackman, 2007; Hills et al., 2009; Branco and Delgrado, 2012) have outlined the implications of corruption in the public sector which include: human resources and government expenditures being channelled into unproductive sectors such as defense that offer opportunities for rent seeking; increase in transaction costs; deterioration of productive resources; reduced government services, particularly education and health care (Gyimah-Brempong, 2002). As Tullock (1993) reminds us, corruption could also lead to the following: constrained economic growth, poverty and inequality; reduced legitimacy of market economy and democracy; public investment and projects which might foster further corruption; reduced domestic and foreign direct investment; and low wages attracting illicit payments (Tullock, 1993).
To ensure transparency and avoid corruption, the agency relationship between the producers of public financial reports and the users of such reports is an important one and will be discussed briefly. In general terms, the relationship between two parties where one is a principal (e.g. a stockholder) and the other is an agent (e.g. a manager) performing a service on behalf of the principal is known as "an agency" (see Jensen and Meckling, 1976; Fama and Jensen, 1983). Agency theory concerns itself with resolving problems that may arise in agency relationships between principals and agents, focusing on two types of problems: first, there are problems that arise because the goals desired by the principal and the agent, respectively, are in conflict (see Bryant and Davis, 2012) and, consequently, the principal cannot ascertain how well the agent is achieving the goals set. Second, there are problems that come about when the principal and the agent take different action/s because they are prepared to take different risks. On the premise that the preparers of public sector financial reports can justifiably be considered agents of the users of the reports (principals), then a problem arises if the public report prepared by the agent is lacking certain types of information (i.e. an information needs expectation gap) and/or the quality of the information contained in the report has deficiencies (i.e. an information quality expectation gap). Agency theory has been used in the fields of accounting, economics, finance, marketing, political science, organisational behaviour and sociology (Eisenhardt, 1989, p. 57). More specifically, agency theory has been used by ethicists (Heath, 2009) to analyse and explain corporate scandals while other authors (Bryant and Davis, 2012; Lan and Heracleous, 2010) have linked the agency theory to corporate governance. Agency theory has been applied by some authors to the public sector financial reporting (Collins et al., 1991; Coy et al., 1997; Clark, 2001; Boolaky, 2004; Steccolini, 2004) whereas others have focused on the information needs (Jones et al., 1985; Daniels and Daniels, 1991; Tooley et al., 2010) and the usefulness of such information (Ryan et al., 2002; Boolaky, 2004; Mack and Ryan, 2004).

Who are the users?
The users of public sector reporting information are internal and external. Coy et al. (1997) identified the users of reports published by public universities and their views on the qualities and disclosures of the annual reports they received. Clark (2001) confirmed the findings of Coy et al.’s (1997) study that internal management and “other like entities” were significant user categories. Boolaky (2004) identified the municipality taxpayers interested in information published to account for their taxes, contradicting an earlier study by Collins et al. (1991) who concluded that external parties do not substantially use the annual financial accounts of local authority, except the audit commission.

Steccolini (2004) surveyed the preparers of Italian local government annual reports, who provided a judgement on the interest the various categories of users had in the annual report. The user groups were: councillors, mayor/president, cabinet members; CEO, directors, managers; other employees; libraries; research institutions; other public sector entities; investors/banks; suppliers; individual citizens; and others. The largest category were the internal users, such as presidents and CEOs, while citizens were a negligible group of recipients in municipalities, and never required their province’s annual report. External stakeholders, such as other local governments, lenders, suppliers and citizens were not strongly interested in the local government reports. The conceptual framework in Steccolini’s study identified three groups of users: recipients of services or their representatives, resource providers or their representatives, and other parties, including special interest groups or their representatives (par. 2.6).
Jones et al. (1985) researched the users of state and local financial reports in the USA, and found evidence that all user groups have great interest in information concerning the budget, such as comparison of actual results with the original budget, the cost of public services, the adequacy of revenues to meet those costs and the stewardship and efficiency of elected and appointed public officials. Daniels and Daniels (1991) identified four types of information needs based on preferences of three user groups in the USA – citizens, investor/creditors and legislative/oversight officials:

1. information on compliance;
2. information about financial viability;
3. information on operating results (i.e. performance); and
4. information about efficiency and effectiveness (surrogated by cost of services).

As far as users’ needs and satisfaction level is concerned, Tooley et al. (2010) investigated stakeholders’ requirements with regard to the annual reports of Malaysian local authorities. In addition to financial information, stakeholders showed strong interest in performance information, such as non-financial performance and future-oriented information.

Jones et al. (1985) argued that the general purpose financial reports produced by the public sector in the USA are too complex for ordinary taxpayers, although the citizen groups were found to be important users of financial reporting. Daniels and Daniels (1991) indicated that although the information contained in the financial statements was useful, it was not sufficient to evaluate the financial condition of a municipality in Spain. Alijarde (1997) who surveyed finance directors, management, audit offices and lenders to analyse the extent of usefulness of financial reports of Spanish municipalities also concluded that financial reporting is considered useful, but the information provided is not used to its maximum. The same author elicited the views of the “users who had a good knowledge of the accounting system” (p. 18), and considered the citizens to be unimportant users of financial reporting and to be unable to use financial information. The Australian study by Mack and Ryan (2004) found that summary facts, figures and key statistics, financial review and analysis, performance indicators and budget as opposed to actual information are viewed by users as being useful.

Given the current financial crisis in many countries, the extent of globalisation and the increasing need to raise funds from the World Bank, International Monetary Fund (IMF), the European Central Bank and even other countries, the stakeholders who require information are now from a much wider community and perhaps their identity is unknown. Thus, the financial information providers of the public sector ought to be aware of the increasing number of stakeholders and their need to trust the providers of the information. Lack of transparency on public sector reporting may lead to lack of finance and, in the context of the Eurozone, a bail-in may end up being the only source of funding, as experienced by Cyprus in March 2013.

When addressing the issue of usefulness of public sector reporting, it is important to investigate if the users are satisfied with the information provided. Coy et al. (1997) found an “expectations gap” of report qualities, disclosures and decision usefulness. This gap exists due to the complexity of the information provided and the inability of the ordinary taxpayer to interpret it (Collins et al., 1991). An expectations gap also appears in municipality reporting (Tayib et al., 1999; Boolaky, 2004). Tayib et al. (1999) found that users of the annual financial accounts prepared by Malaysian local authorities had a general desire for more financial information and also indicated they would be willing to
pay tax sooner if they were provided with the financial information. In addition, one needs to ensure that information provided is also of the highest quality (Steccolini, 2004).

When addressing the needs of users, it is vital to establish if the providers of the information are willing to provide that information. Ryan et al. (2002) examined the quality of the disclosures in Australia by Queensland local government authorities. They found that preparers consider the annual report as being an important tool for the discharge of accountabilities. In some cases, alternative forms of communication are more suitable to satisfy the information demands of stakeholders. In another Australian study, Ryan and Mack (2007) surveyed recipients of annual reports by government departments, local government authorities and government-owned corporations. Their findings reveal that the annual report is not the most important source of information and is not regarded as equally important across all public sector entity types. The perceived usefulness of information for annual reporting, as reported by preparers of information in the Australian public sector, has been investigated by Lee (2008) who documented inadequacy in reporting information and the high importance of financial information. Clark (2010) has stated that “until the purpose for using public sector financial reports is understood then preparers can only be guessing at the information needs of users” (p. 78). Thus, it would be safe to surmise that an information gap does exist in public sector reporting. As such, the aim of the present study was to identify the extent to which users of public sector (central government, local government and public corporate entities in Cyprus) financial reports are satisfied with the types of information (user need expectation gap) and/or with the quality of the information contained (user needs information quality expectation gap) in such reports.

The Cyprus government faces very serious financial problems and, at the time of writing, may not be able to pay the public servants regularly. It has borrowed heavily both from local provident funds (against the wishes of the employees concerned) from other governments (Russia), as well as the IMF and the European Central Bank. It is decreasing salaries and pensions and is taking desperate measures to prevent the national economy from collapsing.

3. Suitability of Cyprus for the present study and the importance of information transparency

The authors are cognisant of the fact that the country selected may not be representative; however, it is a member of the EU since 2004, a member of the Eurozone since 2008 and a country on the verge of a public financial cliff, even after the eurogroup bail-in decision in March 2013. According to Chapter 3 of Accountability and Control of Public Enterprises published by the Asian Organization of Supreme Audit Institutions (2013), the Cyprus constitution sets the legal framework of public sector reporting. The Minister of Finance is responsible for the preparation of a comprehensive budget for the Republic every financial year. The accountant general is an officer of the Ministry of Finance and, as financial controller of the government, plays a key role in financial accountability and exercises general control over receipts and payments. All revenues collected by departments are accounted to the accountant general and all payments charged to the Government’s general account are made by the accountant general (Asian Organization of Supreme Audit Institutions, 2013).

As emphasised by the Financial Reporting Foundation (2009), Cyprus needs to publish fiscal data more frequently and regularly to make the national and local governments more transparent. The International Monetary Fund (2005, p. 36) urged
Cyprus to publish fiscal data timely and to encourage outside scrutiny of the macroeconomic and fiscal projections. Nine years later very little has changed as far as transparency of public financial reporting in the island is concerned. As some authors (Leuz et al., 2009; Mishra and Ratti, 2011) have pointed out, foreign investors are more likely to avoid investing in countries with poor corporate governance and inadequate transparency. This is an important consideration for Cyprus in its continued efforts to come out of its ongoing dire financial crisis.

Regarding the importance of information transparency, Eigen (2002, p. 187) asserted that, “the transparent flow of information is now a prerequisite for market confidence as well as the best remedy of calling the powerful to account”, and where there is misinformation and secrecy, corruption will thrive. To ensure transparency in the public sector, the public officials must be “called to account” and governments must agree to “clamp down on bribery”. Corruption perception surveys conducted by Transparency International-Cyprus (TI-C) (2013) and Transparency International (2013) show a general perception (96 and 91 per cent, respectively) of the Cypriot respondents that corruption is widespread amongst politicians. As far as public servants are concerned, the TI-C annual survey has shown that from 2010 to 2013 there has been an upward trend of the perception that public officials who award public tenders, award building permits and those working in customs, public health, and education give or take bribes or they abuse their position of power for personal gain. In fact, the Global Corruption Barometer (Transparency International, 2013) has found that 59 per cent of the Cypriot respondents perceive there is corruption by public officials, which supports an argument that where there is lack of public sector reporting there will be lack of accountability and corruption risk. As Cypriots struggle to recover from their worst ever financial crisis, information transparency is imperative in the fight against corruption (especially in the public sector) and in boosting market confidence. Thus, the study reported has aimed to identify deficiencies in the information disclosed in public sector financial reporting in Cyprus as far as users of such reports are concerned. By doing so, it makes a small contribution to governance-by-disclosure in a European country that has had very little coverage, enriching public discourse and the concept of the “expectation gap”, conventionally the concern almost exclusively of auditors (see Porter et al., 2012).

4. Methodology
In an effort to identify if the public sector reporting information in Cyprus meets the users’ needs, the present authors utilised the list of users and information needs identified by the International Public Sector Accounting Standards Board Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” (IPSASB, 2008). Initially two focus groups were used to identify the needs of the users of public sector financial reporting and what the providers of such information think the user needs are. The information was subsequently incorporated in the survey questionnaire. The survey aimed to identify if an expectation gap exists in terms of the types of information included in a report (i.e. user information needs expectation gap) as well as whether users are satisfied with the quality of the information included in a report (i.e. whether there is a quality-information gap). Thus, in order to have an adequate perspective on public sector financial reporting, a range of both users and providers were approached. First, a group of 12 users (academics, journalists, company directors, accountants, lawyers) categorised in conformance with IPSASB (2008), was invited as a focus group to identify their information needs in
of the type of information included in a report. Second, a focus group of 15 providers (i.e. parliamentary officials, ministry of finance, auditor general, public bodies, semi-public organisations, local authorities) of public sector information were asked whether the information as outlined by IPSASB (2008) is available to the stakeholders. It was necessary to approach providers as a focus group initially because certain public reports are not readily available but, also, because authors of particular reports might disclose the types of information their superiors instruct them to leave out and might have suggestions as to information that could/should also be disclosed but was not. Data from the two focus groups (see Krambia-Kapardis and Clark, 2010a, b) were utilised to construct a structured questionnaire which was piloted with ten respondents (who had participated in the first focus group) before it was subsequently e-mailed to 1,000 individuals with a particular interest in public sector financial information. Therefore, the survey targeted users of public sector financial reports in the following capacities: recipients of services or their representatives; providers of resources (e.g. goods or finance) or their representatives; or as special interest groups (e.g. journalists, researchers, etc.). The self-administered structured questionnaire comprised three sections: one on respondent’s demographics, one on user information needs and information-satisfaction level, and one section on characteristics of financial and non-financial information. It should be noted in this context that for a number of reasons it had been expected that the response rate was not going to be high, because: it was the first survey of its kind in Cyprus; most respondents would not be familiar with participating in such surveys; and the prevailing tendency in Cyprus is not to question reports by public bodies. Thus, while the response rate was 10 per cent and disappointingly low, it was not considered unexpected for such a specialised survey. Furthermore, as Templeton et al. (1997) have emphasised, a representative sample does not necessarily guarantee a high response rate (p. 94).

The research questions of the survey aimed to ascertain:

1. if there is an information needs expectation gap between the types of information users of public sector financial reporting feel such reports should include to address their needs and what is, in fact, included by the report providers; and

2. if there is an information-satisfaction gap, i.e. the extent to which users are satisfied with the quality of the information contained in such reports. More specifically, it is the gap between the user’s satisfaction level of information provided and the actual information provided, for the three segments of the public sector (central government, local authorities and public corporate bodies).

The questionnaire was distributed in February-March 2010. Section A dealt with the demographics and Section B addressed the user information needs and satisfaction level. Section B covered central government financial reporting, local authorities and public corporate bodies. There were 74 closed-ended questions referring to national, local and semi-government entities.

5. Findings

Table I shows the demographic profile of the respondents in terms of gender, age, capacity in which they used public sector financial reports, and educational background.
As illustrated in Table I, the respondents were mainly 31-50 year old males, with an undergraduate degree (48 per cent) or, in addition, held postgraduate qualifications (49 per cent). Only 4 per cent of the respondents held a high school leaving certificate as their highest academic qualification. Interestingly, 90 per cent of the respondents had professional qualifications in addition to their academic qualifications. Overall, the respondents indicated that the users of the information are well versed in the public sector information made available. Furthermore, the majority of the respondents (63 per cent) were recipients of services or their representatives while 25 per cent were providers of resources and the remaining 12 per cent belonged to special interest groups. Thus, all three categories of users as identified by IPSASB (2008) participated in the study.

The respondents believed that financial information provided by the public sector is useful to users because it: makes the public sector accountable (52 per cent); makes resource allocation possible (43 per cent); assists in social decisions (43 per cent); and assists in decision making for the public sector (51 per cent). Thus, public sector information ought to be made available since the users believed it enabled them to make informed decisions about the government.

The survey also investigated the users’ needs in terms of the extent to which the 17 financial and non-financial types of information/issues addressed by IPSASB (2008, 2013) were present in public sector financial reporting. A close examination of Table II shows that: the reports issued by both the central government as well as local government and semi-public organisations satisfied at least some of the information needs of users; and users felt that reports issued by central government were lacking more information than those by local government for 16 out of the 17 categories of information and for 14 issues for semi-public organisations. In other words, public reports issued by government departments and services need to address and disclose information on a greater number of issues than at present. Thus, in response to the first
<table>
<thead>
<tr>
<th>Statement</th>
<th>Overall mean – need for information</th>
<th>Pair-wise comparison test (paired sample t-test)</th>
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<tr>
<td></td>
<td>Government</td>
<td>Local government</td>
</tr>
<tr>
<td>The types and amounts of resources currently available for providing services in future periods and claims to those resources</td>
<td>3.534</td>
<td>3.163</td>
</tr>
<tr>
<td>The amount, sources and uses of resources raised during the reporting period</td>
<td>3.356</td>
<td>3.099</td>
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<td>The amount and sources of cost recovery during the period, including amounts recovered from taxpayers, ratepayers, fee-for-service consumers and donors</td>
<td>3.425</td>
<td>3.039</td>
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<tr>
<td>Whether resources have been used economically, efficiently and effectively and in accordance with approved budgets and other authority that justified the raising and use of those resources</td>
<td>3.802</td>
<td>3.514</td>
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<tr>
<td>The entity’s performance in achieving its service delivery objectives; including quantitative and qualitative aspects of its service delivery achievements</td>
<td>3.534</td>
<td>3.287</td>
</tr>
<tr>
<td>Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision</td>
<td>3.465</td>
<td>3.089</td>
</tr>
<tr>
<td>Prospective financial and other information useful in assessing the sustainability of government operations and programs and at what level</td>
<td>3.722</td>
<td>3.297</td>
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<tr>
<td>Revenue (tax, grants, running costs, undertakings of loans, etc.)</td>
<td>3.762</td>
<td>3.376</td>
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<tr>
<td>Expenses (wages, Running, subsidies, social benefits, public works, interest, paying off loans, etc.)</td>
<td>3.703</td>
<td>3.475</td>
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<tr>
<td>Assets (fixed assets, bank balances, investments, debtors, reserves)</td>
<td>3.445</td>
<td>3.207</td>
</tr>
<tr>
<td>Liability (loans, creditors, obligations/reserves for pension funds)</td>
<td>3.673</td>
<td>3.247</td>
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<tr>
<td>Reserve funds</td>
<td>3.574</td>
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<td>Guarantees</td>
<td>3.396</td>
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<tr>
<td>Concretisation of budget</td>
<td>3.811</td>
<td>3.346</td>
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<tr>
<td>Achievement of objectives</td>
<td>3.841</td>
<td>3.524</td>
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<td>Legal obligations</td>
<td>3.841</td>
<td>3.455</td>
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<tr>
<td>Future planning/strategies</td>
<td>3.841</td>
<td>3.524</td>
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**Notes:** Scale: 1 = no information needs; 2 = limited information needs; 3 = some information needs; 4 = a lot of information needs; 5 = absolute needs. 
*, **, *** Significant difference p < 0.05
research question posed, a users’ information needs expectation gap does exist in the public sector. As to the question why it exists, one plausible explanation is that public servants who produce reports feel that by withholding information they protect themselves from scrutiny. One way of remedying this significant lack of information is through legislation that would mandate the content of such reports.

Concerning users’ degree of satisfaction with the quality of the information contained in public reports, Table III shows that there is an information quality satisfaction gap; in other words, as users were dissatisfied with reports issued both by central government as well as by local government and semi-public organisations. Interestingly, however, the respondents were the most dissatisfied with the quality of information in reports issued by local government (especially with reference to six information issues for which the mean average value is less than 2), followed by semi-public organisation-issued reports (especially with reference to four categories of information for which the mean average value is less than 2) than by central government. One possible explanation for the general trend and the differences shown (see Table III) may well be because public reports issued by the central government are subject to scrutiny by the auditor general. In the case of local government, however, a yearly financial budget is allocated to local authorities with limited scrutiny of how the budget is spent. Finally, semi-public bodies (like Electricity and Telecommunications Authorities of Cyprus) do not receive a budget from the government and the information they disclose is not scrutinised by the auditor general. The fact that the quality of information in reports issued by government, local and public government leave a great deal to be desired attests to the fact that governance-by-public disclosure has a long way to go in Cyprus.

In order to explore the second postulated research question, quadrant analysis was utilised to combine and graphically illustrate the attributed level of importance (need) and satisfaction into a two-dimensional grid with the aim of enhancing data interpretation, prescribe prioritisation of actions and derive practical strategy formulation suggestions (Oh, 2001). Importance-Satisfaction Analysis results are influenced by the cross-hairs used to divide the matrix, exhibited as Figure 1, into four quadrants. Martilla and James (1977) suggested that if the median and mean values are close, as is the case of our data set, it is preferable to use the mean for defining the dividing cross-hair points in order to avoid discarding any useful information. Quadrant I includes variables perceived low in both need and satisfaction (low priority), whereas the second quadrant includes variables low in need but high in satisfaction (possible overkill). The third quadrant, which requires the immediate attention by stakeholders, includes variables high in need but low in satisfaction, whereas Quadrant IV those high in need and satisfaction (keep up the good work). It can be noted that when comparing the mean need score with the mean satisfaction score for each of the 17 variables of the three sectors (paired sample t-test) (government, local government, semi government) significant differences ($p < 0.001$) exist in all variables. This shows that as far as six important types of information (expenses, legal obligations, achievement of objectives, prospective financial and other information, how resources have been used, and future planning/strategies) are concerned, both expectation gaps apply, i.e. the information concerned is highly needed but the information provided about them is of very low quality. Undoubtedly, the authorities need to pay particular attention to the deficit identified by the quadrant analysis in Figure 1 and the legislature needs to mandate both the provision and the quality of the information in public financial reporting.
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<td>Government</td>
<td>Local government</td>
</tr>
<tr>
<td>The types and amounts of resources currently available for providing services in future periods and claims to those resources</td>
<td>2.336</td>
<td>2.138</td>
</tr>
<tr>
<td>The amount, sources and uses of resources raised during the reporting period</td>
<td>2.455</td>
<td>2.237</td>
</tr>
<tr>
<td>The amount and sources of cost recovery during the period, including amounts recovered from taxpayers, ratepayers, fee-for-service consumers and donors</td>
<td>2.495</td>
<td>2.247</td>
</tr>
<tr>
<td>Whether resources have been used economically, efficiently and effectively and in accordance with approved budgets and other authority that justified the raising and use of those resources</td>
<td>2.138</td>
<td>1.910</td>
</tr>
<tr>
<td>The entity’s performance in achieving its service delivery objectives; including quantitative and qualitative aspects of its service delivery achievements</td>
<td>2.306</td>
<td>2.019</td>
</tr>
<tr>
<td>Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision</td>
<td>2.247</td>
<td>1.960</td>
</tr>
<tr>
<td>Prospective financial and other information useful in assessing the sustainability of government operations and programs and at what level</td>
<td>2.148</td>
<td>1.891</td>
</tr>
<tr>
<td>Revenue (tax, grants, running costs, undertakings of loans, etc.)</td>
<td>2.554</td>
<td>2.128</td>
</tr>
<tr>
<td>Expenses (wages, running, subsidies, social benefits, public works, interest, paying off loans, etc.)</td>
<td>2.326</td>
<td>2.009</td>
</tr>
<tr>
<td>Assets (fixed assets, bank balances, investments, debtors, reserves)</td>
<td>2.415</td>
<td>2.059</td>
</tr>
<tr>
<td>Liability (loans, creditors, obligations/reserves for pension funds)</td>
<td>2.306</td>
<td>2.099</td>
</tr>
<tr>
<td>Reserve funds</td>
<td>2.475</td>
<td>1.990</td>
</tr>
<tr>
<td>Guarantees</td>
<td>2.376</td>
<td>2.009</td>
</tr>
<tr>
<td>Concretisation of budget</td>
<td>2.376</td>
<td>2.029</td>
</tr>
<tr>
<td>Achievement of objectives</td>
<td>2.207</td>
<td>1.910</td>
</tr>
<tr>
<td>Legal obligations</td>
<td>2.237</td>
<td>2.089</td>
</tr>
<tr>
<td>Future planning/strategies</td>
<td>2.128</td>
<td>1.811</td>
</tr>
</tbody>
</table>

**Notes:** Scale: 1 = very dissatisfied; 2 = dissatisfied; 3 = satisfied; 4 = very satisfied; 5 = not applied. *, **, *** Significant difference $p < 0.05$
As far as central government is concerned, the quadrant analysis consists of four quadrants that distinguish the examined variables according to low and high need and low and high levels of expressed satisfaction. In Figure 1, findings revealed six variables (Quadrant III) which are perceived as high in need but low in terms of satisfaction and which require the full attention of information preparers. Thus, a satisfaction gap does exist for the users of information provided by central government, and this gap creates users’ mistrust in the providers and politicians involved in deciding what information is to be reported.

Concerning local government (see Figure 2), findings revealed seven variables (Quadrant III) which are perceived as high in need but low in terms of satisfaction and which require the full attention of preparers of information. When comparing these variables to the variables in Figure 1, there are five common needs for both central government and local government, namely: achievement of objectives; future planning; whether resources have been used economically, efficiently and effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources; future planning/strategies.

Figure 3 shows five variables (Quadrant III) which are perceived as high in need but low in terms of satisfaction which require the immediate attention of preparers of information, indicating that in this sector there is also a satisfaction gap.

### Figure 1.
Quadrant analysis – government

<table>
<thead>
<tr>
<th>NEED</th>
<th>HIGH</th>
<th>Quadrant III (High N – Low S)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Legal Obligations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Achievement of Objectives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prospective financial and other information useful in assessing the sustainability of government operations and programmes and at what level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Whether resources have been used economically, efficiently and effectively, and in accord ance with approved budgets and other authority that justified the raising and use of those resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future planning/Strategies</td>
</tr>
<tr>
<td>LOW</td>
<td></td>
<td>Quadrant I (Low N – Low S)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The entity’s performance in achieving its service delivery objectives; including quantitative and qualitative aspects of its service delivery achievements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LOW</th>
<th>SATISFACTION</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Notes:
Need average mean = 3.631. Satisfaction average mean = 2.329
Further comparison of the three figures showed that:

- Only one variable “Revenue (Tax, Grants, Running costs, Undertakings of loans […]”) is perceived as both high in information need and high in satisfaction (Quadrant IV) in all three matrices for all three sectors.

- The variable “Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount as well as sources of the resources that will be allocated to their provision” fall into Quadrant I (low need and low satisfaction) in all three matrices.

- Four variables fall in Quadrant II (low need – high satisfaction) in all three matrices. The four variables are: the types and amounts of resources currently available for providing services in future periods and claims to those resources; assets (fixed assets, bank balances, investments, debtors, reserves); the amount, sources and uses of resources raised during the reporting period; and the amount and sources of cost recovery during the period, including amounts recovered from taxpayers, ratepayers, fee-for-service consumers and donors.
In the light of the findings obtained, the present authors suggested in their interim research report to the ICPAC that there ought to be specific legislation in Cyprus regarding annual public sector reporting. However, four-years after the recommendation was made, not only the implementation of the suggested legislation has not taken place, but Cyprus is in the throes of a financial crisis. The authors believe that one of the contributing factors to the current financial crisis has been the lack of transparency in public financial information and the lack of willingness by the regulators to legislate to improve public sector reporting—factors that facilitate and maintain corruption in the public sector, mismanagement of public funding, lack of accountability, it fosters creative accounting in the public sector and, finally, also leads to liquidity problems in the public sector.

The conceptual framework (i.e. “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” (IPSASB, 2008) has identified who the users of the public sector information are, and their needs. Thus, if it is fully adopted in Cyprus, the information needs expectation gap can be bridged once the providers and the regulators comply with the framework. The other component of the expectation gap is the information-satisfaction gap, which exists because the users are not satisfied with the quality of the information provided. Here, additional information and transparency are required to bridge the two gaps identified. Had such an improvement already occurred, the Cyprus economy might not have verged on collapse because the public and policy makers would have been better aware of the

**Figure 3. Quadrant analyses – semi government**

<table>
<thead>
<tr>
<th>NEED</th>
<th>SATISFACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quadrant I (Low N—Low S)</td>
<td>Quadrant II (Low N—High S)</td>
</tr>
<tr>
<td>• The entity’s performance in achieving its service delivery objectives; including quantitative and qualitative aspects of its service delivery achievements</td>
<td>• Assets (Fixed Assets, Bank Balances, Investments, Debtors, Reserves)</td>
</tr>
<tr>
<td>• Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision</td>
<td>• The types and amounts of resources currently available for providing services in future periods and claims to those resources</td>
</tr>
<tr>
<td></td>
<td>• Reserve Funds</td>
</tr>
<tr>
<td></td>
<td>• Guarantees</td>
</tr>
<tr>
<td></td>
<td>• The amount, sources and uses of resources raised during the reporting period</td>
</tr>
<tr>
<td></td>
<td>• The amount and sources of cost recovery during the period, including amounts recovered from taxpayers, ratepayers, fee-for-service consumers and donors</td>
</tr>
</tbody>
</table>

**Notes:** Need average mean = 3.358. Satisfaction average mean = 2.088
real state of the national economy and seek financial assistance before the financial cliff. Atkin (1999) emphasised that transparency is an important concept of ethics and Halter et al. (2009, p. 383) extended the assertion by claiming that “leaders will only be ready to implement good practices if they understand the importance of transparency, convergence and integrity”.

The survey participants’ responses confirm that each of the categories of users identified in the IPSASB Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”, is present amongst the respondents, albeit in varying proportions. Thus, the three broad categories framework is a representative description of users: recipients of services or their representatives, providers of resources or their representatives and other parties, including special interest groups and their representatives. In respect of the more specific user groups identified in the Consultation Paper, the survey findings confirm that all user groups are present with the exception of donors, including international organisations. The presence of specific user groups may vary according to the circumstances of a particular country. Perhaps there is considerable variation in the size of the respective user groups identified within the Consultation Paper.

Second, the survey responses confirm that each of the information needs identified in the IPSASB Consultation Paper was rated as being a significant information need, with responses predominately in the “some”, “a lot” or “absolute” information needs categories. This provides strong evidence that the IPSASB has correctly identified information needs of users of general purpose financial reports of central government, local government and public corporate bodies.

Finally, the results of quadrant analyses reveal a group of information items with the need-satisfaction gap being the greatest. This finding should be used by the preparers of information to assist in focusing and prioritising their attempts at improving public sector information.

6. Conclusions
The study participants belonged to all three categories of public sector financial reporting identified by IPSASB. Despite some limitations of the survey, the results show that the reports issued by central government as well as by local governments and semi-public organisations satisfied some of the information needs of the users. However, the respondents felt that the reports issued by central government departments and services lacked more information than those by local governments or by semi-public organisations for almost all of the categories of information listed in the questionnaire.

As far as policy implications of the findings are concerned, educating government public financial report providers about the deficiencies in the reports will go some way towards narrowing the information needs expectation gap identified. The gap itself may indicate a wish by certain public servants to protect themselves and/or their departments/services from scrutiny by not disclosing particular types of information. To prevent such practices, legislation should be introduced in parliament mandating the content of such reports. The drafting and submission of such legislation to parliament could be undertaken not only by the largely understaffed Legal Service of the Republic of Cyprus but, also, by Transparency International (Cyprus) in view of the latter’s dedication to transparency.

It was interesting to find that the respondents were most dissatisfied with the public financial reports issued by local government, followed by the reports of
semi-public organisations. One way the information deficit identified could be remedied would be through both educating the providers of the reports to address the information quality issue as well as by encouraging the users of the reports to voice their concern in the media and by sensitising members of Parliament for the need to legislate in order to improve the quality of the content of public reports in order to enhance accountability and reduce corruption. Given the large number of local governments (39) in Cyprus and the limited resources at the National Audit Office, it is impossible for them to scrutinise all the information of all local governments at a given point in time, thus rotation audits are carried out. However, due to the financial crisis, there is a discussion that local governments will merge. Thus, the total number of local governments will decrease and will be possible for the auditor general to audit each local government annually. Another policy implication arising from this finding is that legislation needs to be enacted that will allow the National Audit Office to subcontract some of its work to private audit firms in order to help reduce the information quality expectation gap identified. In addition, educating the stakeholders about the need for adequate public disclosure would contribute to the improvement of the information disclosed also in semi-public organisation reports, enhance transparency and reduce corruption. Governance-by-public disclosure in Cyprus, however, still has a long way to go. One policy implication of the finding that there exists an information needs expectation gap in public and semi-public financial reporting in Cyprus regarding needs addressed in the IPSASB is that the said conceptual framework should be fully implemented in Cyprus. Furthermore, the introduction of legislation to narrow the needs information gap in public and semi-public financial reporting will contribute to the enhancement of the agency relationship between the report preparers and providers and the report users.

Public information disclosure is a manifestation of transparency and contributes to governance-by-disclosure. Also, better financial reporting can improve the credibility and integrity of public finances and contribute to a better management of public resources. In this paper it has been demonstrated through the literature review that where there is lack of transparency in public financial information, there will be lack of public trust in politicians and decision makers, thus leading to corruption which, in turn, will lead to slowing down in economic growth. The present authors have extended this reasoning by maintaining that where there is a satisfaction gap between the users’ satisfaction level of information provided and the public financial information provided, and the authorities do not take remedial measures, then there is likely to be a public financial cliff because external stakeholders do not trust the government to lend it money. This is an important consideration at a time when trust in Cyprus’ economy is at its lowest than it has ever been. The country is struggling with its worst ever financial crisis and reducing corruption, especially in the public sector, is a priority for the government. The two types of expectation gap identified in public financial reporting, point to a problematic agency relationship between providers and users of such reports. Why would the World Bank, the European Central Bank, any government or any investor lend or invest in a country where there is lack of transparency in public financial information? This is illustrated by Alesina and Weder (1999), who assert that Australia and the Scandinavian countries are more likely to invest in less corrupt governments.

The preparers and providers of public sector financial reporting need to be more aware of the increasing number of report users. Both should recognise that they should gain the trust of the report users. To gain this trust they should improve the quality of
the information disclosed in such reports by making good the deficits identified and enhancing transparency through public disclosure. This is imperative, especially for Cyprus, because it would contribute to the improvement of market confidence. Many overseas governments have made public sector financial information more user friendly. The preparers and providers of information need to realise that all stakeholders, and particularly an ordinary citizen such as a taxpayer, with an average level of understanding, are entitled to access, read and interpret public sector financial and other information.

Public sector financial information serves a useful purpose in making governments accountable, in assisting in political and social decision and in efficient resource allocation. The providers of the financial information in the present study are willing to improve the reporting of the information they currently present as evident from the participants of the focus groups in the present research. Meetings were held with the accountant general and the officials from the Ministry of Finance and Treasury, who at the time of the survey were members of the Public Sector Committee of the ICPAC that initiated the research. These individuals undertook to communicate the findings of the study to the Minister of Finance and Parliament to ensure that the satisfaction gap is bridged but, unfortunately, there has been no response from the latter.

It is important to emphasise that all three government sectors are interrelated and interlocking. If one of the segments is not providing useful information, the entire system will be subject to criticism. Thus, there is a need to find ways to improve the usefulness of reporting by all three sectors. Future research should replicate the findings with a larger sample of public financial report users both in Cyprus as well as in other countries experiencing a major financial crisis like Greece, Italy, Portugal or Spain. Governance-by-public disclosure needs to be strengthened in order to reduce the extent and severity of corruption in the public sector that often underpins such national financial crises.

Insisting on the citizens’ need for transparent access to reliable, useful and timely information from the government will ensure that Cyprus will be able to survive the financial cliff it is facing. As wages for the public servants are being decreased, for some the net effect on the family disposable income is a decrease of 30-45 per cent. Illicit payments are expected to rise and corruption will become more widespread. The repercussions of lack of transparency are serious and the authorities in Cyprus cannot afford to overlook them. The fact is that lack of transparency in public sector financial disclosure can underpin increased corruption in the public sector (Krambia-Kapardis, 2013).

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Further reading


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