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Published in:
Financial Accountability and Management

DOI:
[10.1111/1468-0408.00113](https://doi.org/10.1111/1468-0408.00113)

Published: 01/01/2000

Document Version:
Peer reviewed version

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Recommended citation(APA):
Ryan, C., Dunstan, K., & Stanley, T. (2000). Local Government Accounting Standard-setting in Australia: Did Constituents Participate? *Financial Accountability and Management*, 16(4), 373-396.
<https://doi.org/10.1111/1468-0408.00113>

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**LOCAL GOVERNMENT ACCOUNTING STANDARD-SETTING IN AUSTRALIA:
DID CONSTITUENTS PARTICIPATE?**

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The authors gratefully acknowledge the financial assistance provided by a Queensland University of Technology Scholarship in the Professions Grant and the insightful comments provided by two anonymous referees.

LOCAL GOVERNMENT ACCOUNTING STANDARD-SETTING IN AUSTRALIA: DID CONSTITUENTS PARTICIPATE?

ABSTRACT

The Public Sector Accounting Standards Board (PSASB) has developed accounting standards for the public sector in Australia. A procedural 'due process' has been developed to protect the openness, neutrality and independence of Australian accounting standard-setting both in the private and public sectors. Prior research into constituent participation in the 'due process' for specific cases in the public sector has raised doubts as to whether the 'due process' operated in an open, neutral and independent manner. It has found that account preparers were under-represented in their responses and used less sophisticated lobbying strategies than other respondents. The research also concluded that some constituents had favourable access to the 'due process', and that standard setters did not receive all pertinent information from constituents. This paper examines constituent participation in the 'due process' for the first public sector accounting standard, that for local government (*AAS 27*). The submissions made on the exposure draft preceding the standard - *ED 50* - have been analysed using content analysis. The findings suggest that account preparers were well-represented in their responses and adopted the lobbying strategy of weighting their responses with supporting argument for the most controversial issues. Contrary to prior research, the paper concludes that in the case of *ED 50* there is no evidence that the 'due process' failed to operate in an open and neutral manner.

Keywords: Public Sector Accounting Standards Board; Due process; Local Governments, *AAS 27*; Australia.

INTRODUCTION

The public sector in Australia is comprised of three segments: local governments, government departments and whole of government. Each segment has traditionally reported on a cash basis. Since 1988, with the publication of a Discussion Paper on local governments (Greenall *et. al.*, 1988), the Public Sector Accounting Standards Board (PSASB) foreshadowed the introduction of accrual reporting for local government, and by implication to the other segments of the public sector. In 1989, the exposure draft *ED50* (AARF1989a) was released and in 1990, the first Australian public sector accounting standard AAS 27 Financial Reporting by Local Governments was issued by the PSASB (AARF, 1990). This standard required each local government to present accrual financial statements and was the precursor for similar requirements for government departments and whole of government in subsequent accounting standards issued by the PSASB.

The development of public sector accounting standards follows the same procedural 'due process' used by the private sector. Miller (1995) argues that the 'due process' illustrates the Board's commitment to public exposure. It is the means by which standard-setters acquire knowledge about economic consequences and conceptual problems from constituents (Fogarty *et. al.*, 1994), without serving the private interests of constituents. Prior to the issue of an accounting standard, a Discussion Paper or Accounting Theory Monograph is initially released to investigate all conceptual and practical aspects of a topic (AARF, 1993a). After consideration by the Board, an Exposure Draft is issued, and comments are invited from all interested parties on the issues raised in the Exposure Draft. This provides constituents the opportunity to lobby on a proposed standard by providing comments. After deliberation on the comments received, the Board issues a standard. Miller (1996) argues that, because all stakeholders have a chance to make submissions on accounting issues within the 'due process', the private sector accounting standard-setting process in Australia is open, neutral and independent.

However, it is possible that the institutional differences between the private sector and the public sector mean that the 'due process' may not provide an 'equitable' outcome in the case of the public sector. Prior research into the operation of the 'due process' surrounding the development of the public sector accounting standard for government departments has raised questions about the veracity of the process, (in particular the openness and neutrality of the process), and found that some constituents have had favourable access to the process (Carnegie and West, 1997; Ryan *et. al.*, 1999; Ryan, 1999). In the broader context of accounting standard setting, these findings have been explained in terms of the political context existing at the time of the standard and the alliances between the various constituents in that process. This research does not indicate whether the problems were a product of the time frame of the prior studies or whether there are systematic flaws in the 'due process' for the development of public sector accounting standards. A study at the formative stages in the evolution of the public sector accounting standard setting process will provide evidence on this point.

The aim of this paper is to investigate constituent participation in the 'due process' for the first public sector accounting standard, that for local government (AAS 27). This will be achieved by examining the access to that process and the strategies used in an attempt to influence the process; and identifying the key issues and positions taken by the major respondents. Because *ED 50* was the first public sector exposure draft issued by the PSASB, it had not as yet formed any alliances with groups within the public sector (Ryan, 1999). The results of this study could have implications for the public sector standard setting process, both as it exists under the PSASB, and the changed institutional arrangements for standard setting in Australia, where the public sector no longer has its own Board but one Board deals jointly with private sector and public sector issues.

The remainder of the paper is organised as follows. Section two describes the prior research in local government standard setting. The third section contains a case study of *ED 50* and outlines the results of the analysis of the lobbying behaviour of constituents through submissions made on *ED 50*. The paper concludes with a discussion of the implications of the findings for the accounting standard setting process for the Australian public sector.

PRIOR RESEARCH

Miller (1995) p10 argues that a "healthy" accounting standard setting process needs representation from the entire spectrum of stakeholders to retain its integrity. He concludes that "a transparent due process allows outsiders to see the interactions and compromises among the key participants in the development of acceptable accounting rules". Prior Australian research has raised questions about the veracity of various aspects of the operation of the 'due process' for public sector standard setting. Ryan *et. al.* (1999) concluded that there were fundamental problems with the 'due process' as it operated in AAS29, which was released in 1993. There was a lack of input from account preparers and a close working relationship existed between the Treasuries and the standard setters. Carnegie and West (1997) conducted an analysis of the responses to *ED 50* in relation to the recognition of infrastructure assets only. They contended that, for this particular issue, the standard setters placed more weight on a sample of 26 responses which were deemed to be "of particular interest" by the staff of the Australian Accounting Research Foundation (AARF) (p32). This led to their raising the concern that the PSASB may not have been responsive to its constituents.

With regards the motivations and imperatives for constituents to lobby in the accounting standard process, this is well documented (Watts and Zimmerman 1978 and 1986). A constituent would be expected to lobby within the 'due process' where the expected benefits of doing so exceed the costs (Sutton, 1984). However, while potential benefits are the primary motivation for lobbying, constituents will not lobby unless they perceive that they have the potential to influence the decision either individually or collectively (Sutton, 1984). Researchers investigating the lobbying behaviour of respondents to exposure drafts in the public sector, (Roberts and Kurtenbach, 1992; Carnegie and West; 1997, Ryan *et. al.*, 1999), have identified account preparers, Auditors-General, government regulatory bodies, private sector accountants/auditors, and users as potential constituents.

It has been found that account preparers are the most frequent respondents to public sector accounting standards. Roberts and Kurtenbach (1992) stated that in the US, account preparers and attestors (auditors) provide about 90% of the input on accounting standards.

Carnegie and West (1997) report that account preparers represented 68% of the total respondents to *ED 50* on the Australian local government standard.

In relation to this standard on local government, the major group of account preparers affected by the exposure draft will be urban and rural local councils. Local government accounts had previously been prepared using a cash, or fund basis of accounting (Greenall *et. al.*, 1988). *ED 50* represented a major shift from cash to accrual reporting. These proposed changes in accounting requirements would involve significant expenses associated with the implementation of the new standard through potential increases in book-keeping and asset valuation costs. Neilson (1993), argues that compliance with the standard was likely to necessitate the development of new financial expertise including information systems and personnel. Prior research has contended that where the implementation of a proposed standard imposes costs for the account preparers then this group will become active lobbyists (Sutton, 1984). If this is found not to be the case then this may be evidence of an impaired access to the 'due process' for these constituents.

Another group of respondents to public sector accounting standards has been the Auditors-General (Ryan *et. al.*, 1999; Ryan, 1998). Auditors-General audit, or sign off the audit on the majority of local government accounts (Scanlan 1999). Ryan *et. al.*, 1999 contend that public sector auditors are agents of Parliament and would lobby for standards which improve accountability of government bodies.

Government regulatory bodies have also been identified in the literature as being constituents in the public sector accounting standard setting process. In Australia, despite the existence of the PSASB, government regulatory bodies - Departments of Local Government (or their equivalent) in each Australian jurisdiction - have the responsibility for the determination of accounting requirements for local governments. Prior research has documented that these bodies have lobbied on public sector accounting standards (Ryan *et. al.*, 1999).

Public sector accounting standard setters in numerous jurisdictions internationally have adopted the user needs perspective as their framework for general purpose financial

reporting (Van Peurse and Pratt, 1992). This perspective suggests that resource providers, recipients of goods and services and parties performing a review or oversight function are the primary users of financial reports. Despite this emphasis, the response rate of these groups to exposure drafts has been found to be low, even where the proposed standard adopts a user perspective (Weetman *et. al.*, 1996; Gaffney, 1986; Engstrom, 1988; Butterworth *et. al.*, 1989; Hay, 1994; and Dixon *et. al.*, 1994).

In summary, prior research on the public sector accounting standard-setting process raises questions about the operation of the 'due process' and identifies a number of potential constituents who would have an interest in the outcome of *ED 50*. The remainder of the paper examines the submissions made on *ED 50* as a case study of constituent participation in the Australian public sector accounting standard-setting process.

THE CASE OF *ED 50*

Background to *ED 50*

ED 50 was issued by the PSASB in 1989. It identified local governments as reporting entities which were required to prepare general purpose financial reports, including an Operating Statement, Statement of Financial Position, a Statement of Changes in Equity and a Statement of Cash Flows. Those reports were to be prepared on an accrual basis with the Operating Statement disclosing the 'change in net assets resulting from operations'. In addition, all assets that satisfied the recognition criteria, including infrastructure assets (such as transport systems), heritage assets (such as monuments) and community assets (such as parks and recreational reserves) were required to be recognised in the Statement of Financial Position. Notes to the Statement of Financial Position were to include information on expenses, revenues and assets attributed to each of the broad functions or activities of local government. The AARF also issued a Guide to *ED 50* to assist potential respondents to the exposure draft (AARF, 1989b). This guide outlined nine issues on which the PSASB specifically sought comment.

AAS 27 Financial Reporting by Local Governments was subsequently issued in 1990. There were few changes from the ED. The most significant change related to the treatment of contributions. *ED 50* proposed that where conditions are imposed on a local government in exchange for receipt of contributions such as rates, grants, donations, regulatory fees and fines, the contributions should be recognised as revenues when those conditions are satisfied. *AAS 27* changed this basic approach in line with the concept of 'control'. It required such contributions to be recognised as revenues when the local government obtains control over the assets comprising the contributions, not when the conditions are satisfied.

The fact that the accounting standard was issued with requirements largely unchanged from the original exposure draft suggests a number of possibilities: either the ED gained general constituent approval; respondents who did not agree with the proposals chose not to lobby; or the positions of opponents to the requirements failed to influence the standard-setters to alter the outcome. By documenting the level of evident constituent participation in the 'due process', the key issues, the positions held by respondents and any strategies employed by them in an attempt to influence the standard-setters, this case study will add to other public sector case studies and enable conclusions to be drawn about the operation of the public sector 'due process'.

Method of Analysis

The submissions made on *ED 50* were analysed using 'form oriented' content analysis based on the procedures employed by O'Keefe and Soloman (1985); MacArthur (1988); Tutticci *et. al.* (1994); Weetman *et. al.* (1996) and Ryan *et. al.* (1999). The objectives of this method are to identify the key issues within the exposure draft, the positions held by respondents and any strategies adopted by respondents in an attempt to influence the standard-setters. The key to the effective use of this type of content analysis is to minimise the bias created by researcher subjectivity. For this project, the submissions were analysed by two researchers.¹ All responses were coded and classified by the first researcher according to predetermined classification schemes (see Figures 2 and 3). The second researcher then independently analysed all responses. Each instance of disagreement was discussed between the two researchers and all discrepancies were able to be resolved through clarification of the classification schemes.

An integral aspect of content analysis is the identification of the key issues contained in an exposure draft. A researcher is faced with a choice between making some subjective identification of issues or relying on a choice by an external party. Following Tutticci *et. al.* (1994) and Ryan *et. al.* (1999), the issues examined will be based on those identified in the AARF's Guide to *ED 50* (AARF, 1989b). Tutticci *et. al.* (1994) argue that the AARF list of issues are determined independently from the researcher and therefore any potential research bias from subjectively identified issues is avoided. However, this choice does not control for any bias introduced by the AARF in their selection of the issues to be highlighted for comment. Weetman *et. al.* (1996) note that standard setters may select the issues of interest to them and thus may have directed respondents away from other aspects of the exposure draft. The limitation of this style of content analysis means that no conclusion can be reached as to the true underlying position/motivation of the respondents. However, the strength of this style of content analysis is that it can objectively document the 'stated' positions of respondents and any strategies employed by them for the issues under analysis (Tutticci *et. al.*, 1994). This analysis can then be augmented by other styles of future research which do address the underlying interests of constituents.

The original thirteen issues outlined by the AARF (column one) and those employed in this study (column two) are compared in Figure 1. This list was modified slightly by splitting issues 1, 2, 3, 4, 5 and 13 because each of these issues encompassed two or three components that required a separate response by the respondent. Issue 1 dealt with the basic premise that local governments should present general purpose financial reports using the full accrual basis of accounting and consolidation. This was split into two components: Issue 1a, the accrual basis of accounting; and Issue 1b, the requirement to prepare a single set of financial statements. Following Puro (1984) who suggests that separating measurement (standardisation) issues from those relating solely to disclosure provides a clearer picture of respondent positions, the remainder of the issues were split into measurement and disclosure. Items 2 to 5 were considered to be measurement issues. Items 6 to 13 dealt with disclosure issues. It is to be noted that issue 12 was deleted from the study as it was an open-ended question that focussed on the phase-in time for the standard.

Figure 1 ED 50 Issues Raised for Comment

AARF Issues (AARF 1989a)	Research Issues
<p>1 The requirement to prepare a single set of financial statements to encompass all of the operations which the council controls</p> <p>2 The requirement to recognise all assets which satisfy the criteria set out in paragraph 38 of the draft</p> <p>3 The recommendation that local governments revalue regularly their non current assets to written down current cost</p> <p>4 The requirement to depreciate all non current assets with limited useful lives</p> <p>5 Whether the accounting policies proposed in respect of grants and rates as set out in paragraphs 65 to 70 and 91 to 93 of the draft are supported</p>	<p>General Purpose Financial Reporting (GPFR) Issues</p> <p>1a The requirement to prepare financial statements (where the full accrual basis of accounting is adopted in the preparation of general purpose financial reports)</p> <p>1b The requirement to prepare a single set of financial statements to encompass all of the operations which the council controls</p> <p>Measurement Issues</p> <p>2a The requirement to recognise assets other than roads, bridges and underground pipes which satisfy the criteria set out in paragraph 38 of the draft</p> <p>2b The requirement to recognise roads, bridges and underground pipes which satisfy the criteria set out in paragraph 38 of the draft</p> <p>3a The recommendation that local governments revalue regularly their non current assets other than roads, bridges and underground pipes</p> <p>3b The recommendation that local governments revalue regularly their roads, bridges and underground pipes</p> <p>3c The recommendation that local governments use written down current cost for revaluations</p> <p>4a The requirement to depreciate all non current assets other than roads, bridges and underground pipes with limited useful lives</p> <p>4b The requirement to depreciate roads, bridges and underground pipes with limited useful lives.</p> <p>5ai Whether the accounting policies proposed in respect of grants as set out in paragraphs 65 to 70 of the draft in relation to revenue grants are supported</p> <p>5aii Whether the accounting policies proposed in respect of grants as set out in paragraphs 65 to 70 of the draft in relation to capital grants are supported</p> <p>5b Whether the accounting policies proposed in respect of rates as set out in paragraphs 91 to 93 of the draft are supported</p>
<p>6 The disclosure requirements set out in paragraph 102 of the draft in respect of the broad programs and activities of the local government</p> <p>7 The requirement to disclose restricted assets</p> <p>8 The requirement to disclose a summary of the budget adopted for setting rates for the reporting period</p> <p>9 The reporting of information about compliance with externally imposed financial requirement on an exception basis</p> <p>10 The recommendation that local governments report semi-financial and non-financial performance indicators which assist users in assessing the performance of those local governments</p> <p>11 The requirement that general purpose financial reports of local governments be made available to users within four months of the balance date</p> <p>12 The length of the period which should be provided from issuance of the Standard (expected in mid 1990) during which local governments may phase in adoption of the Standard's requirements</p> <p>13 The format of the illustrative financial statements contained in the Appendix, and in particular: - whether the illustrative operating statement should report revenues and expenses by nature or type; and - whether the order of presentation of assets and liabilities in the illustrative statement of financial position, which enables disclosure of net current assets, is supported</p>	<p>Disclosure Issues</p> <p>6 The disclosure requirements set out in paragraph 102 of the draft in respect of the broad programs and activities of the local government</p> <p>7 The requirement to disclose restricted assets</p> <p>8 The requirement to disclose a summary of the budget adopted for setting rates for the reporting period</p> <p>9 The reporting of information about compliance with externally imposed financial requirement on an exception basis</p> <p>10 The recommendation that local governments report semi-financial and non-financial performance indicators which assist users in assessing the performance of those local governments</p> <p>11 The requirement that general purpose financial reports of local governments be made available to users within four months of the balance date</p> <p>The format of the illustrative financial statements contained in the Appendix, and in particular: 13a - whether the illustrative operating statement should report revenues and expenses by type; and 13b - whether the order of presentation of assets and liabilities in the illustrative statement of financial position, which enables disclosure of net current assets, is supported</p>

These decisions made about the division of issues had implications for any analysis conducted. First, in relation to Issue 1, if a respondent stated they were opposed to the introduction of accrual accounting, or the standard in general, this was taken to mean a vote against Issue 1a and Issue 1b. Second, for issues 1 to 5 and 13, if the respondent stated they agreed with the issue, they were taken to agree with all subparts of the issue.

The purpose of the content analysis employed in this study is to identify the positions held by respondents and to identify any strategies adopted by them to 'weight' their responses in an attempt to influence the standard-setters. The positions held by respondents will be counted as simple votes where each comment is considered as an 'agree', 'disagree', or 'neutral' position. The strategies to 'weight' responses that are considered are whether respondents supported their position with conceptual and/or economic consequence arguments.

Each response was scrutinised for any comment on the twenty issues employed in this study. Many respondents addressed the issues on a point by point basis following the AARF Guide, making the identification of a comment on an issue straightforward. For others it was necessary for the two researchers to interpret whether a comment had addressed one of the issues of interest. Once a comment on an issue was identified, the respondent's position was coded using the classification system as outlined in Figure 2. Again, in some instances researcher judgment was involved in the classification. Additional analysis involved the determination of whether respondents had 'weighted' their stated position with the use of supporting arguments. The classification scheme used is presented in Figure 3. The results of the content analysis are discussed in the next section.

Figure 2 Classification scheme for responses

1. Agree - where respondents:
 - . state that they agree; or
 - . where the spirit of the stated position is one of agree including where respondents agree but with reservation.
2. Disagree - where respondents:
 - . state that they disagree; or
 - . where the spirit of the stated position is one of disagree including where respondents disagree but with reservation.
3. Neutral - where respondents:
 - . discuss the issue but reach no conclusion; or sought clarification/refinement.
4. Nil - where respondents:
 - . give no indication of their position on an issue.

Figure 3 Classification scheme for arguments used by those who responded with a position

Conceptual – where respondents provide discussion of accounting concepts, the conceptual framework or generally accepted accounting principles.

Economic – where respondents use arguments relating to dollar (\$) costs and benefits or more generally talk about implementation problems which ultimately will affect costs.

Both – where respondents use both a conceptual and economic argument.

None – where respondents use no argument.

Discussion of Results

Constituent Response Rates

One hundred and fifty four respondents provided submissions on the exposure draft. Table 1 summarises the responses by respondent group.

TABLE 1
Response Rate by Respondent Group to *ED 50*

Respondents	Actual	% of total respondents
Local Government – Urban	25	
Local Government – Rural	<u>70</u>	
	95	63
Local Government Representative Groups	17	11
Local Government Departments	3	2
Auditors' General	4	3
Accounting Firms	5	3
Others (including 4 Treasuries)	<u>27</u>	<u>18</u>
	151*	100

* AARF documents the receipt of 154 submissions. In the data supplied by AARF, 2 submissions were missing, 2 were confidential and the researchers deemed that 1 of the submissions treated by AARF as a single submission was in fact 2 separate submissions from 2 separate sources.

The account preparers affected by the proposed standard, local governments, submitted the majority of responses (63%). This means that approximately 11% of local governments existing at the time submitted a response (95 local governments out of a possible 849²). This response rate is much higher than that recorded by Ryan *et. al.* (1999), where they reported only 3% of account preparers (Australian government departments), provided a response to *ED 55* Financial Reporting by Government Departments. The strong interest of local government account preparers may be a reflection of the change in the accounting method and a renewed interest in local government accounting due to the fact that local governments in 5 jurisdictions had

recently obtained the legislative power to engage in entrepreneurial activities, and the financial risks borne by Councils had been under scrutiny (Greenall *et. al.* 1988)

The second largest group of respondents was the local government representative groups, who submitted 11% of the total responses. Local government representative groups represent a wide variety of constituents; examples being the Victorian Institute of Municipal Management, Queensland Local Government Accounting Association, and the City of Geelong Local Government Accounting Group. Although this group is reasonably disparate, the fact that they are participating in the 'due process' for this standard is interesting. The participation of representative groups was less evident for the later government department accounting standard³. This greater participation may be explained by the fact that this was the first public sector specific accounting standard in Australia and, in particular, the first standard that introduced full accrual reporting concepts to the public sector.

Local government departments have responsibility for the reporting requirements for local governments and would therefore be expected to be most interested in the proposal of the exposure draft. However, only 3 out of the 7 local government departments operating in Australia provided a response. This contrasts with the situation for the regulators of government departments, Treasuries, who all responded to the exposure draft relevant to government departments *ED 55* (Ryan *et. al.*, 1999). Ryan *et. al.* explain the strong involvement of Treasuries in the case of *ED 55* as being an indicator of the highly co-operative relationship between those bodies and the accounting standard setters that existed at the time. No such obvious co-operative relationship existed between local government departments and the standard setters surrounding the issue of *ED 50*. A further possible explanation for the lower participation of these regulators may be that the expertise to reply on these matters did not exist in the local government departments at this time, because of the preoccupation of the local government departments with compliance reporting issues rather than external reporting issues.

Four Auditors' General provided a response to *ED 50*. This represents only 44% of the nine Australian Auditors' General. Ryan (1999) reports the results of interviews with every Australian Auditor-General and found that Auditors-General at this time did not have a standard policy of automatically responding to PSASB exposure drafts. However, some 3 years later when the exposure draft for government departments (*ED 55*) was produced, this position had changed. This explanation is consistent with the results of Ryan *et. al.* (1999) who found that by 1992, 78% of the Auditors-General responded to *ED 55*.

Five accounting firms/auditors responded to the standard. This differs from prior private sector research that finds auditors respond to exposure drafts in large numbers (Puro, 1984; MacArthur, 1988; Mian and Smith, 1990; Deegan *et. al.*, 1990). This prior research explains the participation of these accounting firms as being an opportunity to advertise their expertise or to lobby on behalf of clients.

The 'other group' was very diverse. It included individuals, Treasuries, other government departments and representatives of accounting groups. Due to this diversity, no further analysis of this group is conducted.

Key Issues and Respondent Votes of Position

Table 2 presents the positions held by respondents classified by the three types of issues: general purpose financial reporting (GPFR) framework, measurement and disclosure. It should be noted that of the 151 submissions examined by the researchers, only 138 were useable in the content analysis. Thirteen submissions made an overall statement about the ED only, and did not offer a comment on any of the specific issues raised. These responses were excluded from the analysis as they were not useful in identifying respondent positions or lobbying strategies adopted on individual issues.

TABLE 2
Overall Responses by Issue for 138 Useable Responses

Issues	Total Population				Total Population less Nil and Neutral Responses	
	Agree	Neutral	Disagree	Nil	% Who Stated a Position	
					Agree	Disagree
GPFR						
Issue 1a	70.3% (97)	1.4% (2)	13.8% (19)	14.5% (20)	83.6%	16.4%
Issue 1b	63.8% (88)	5.1% (7)	13.0% (18)	18.1% (25)	83.0%	17.0%
Measurement						
Issue 2a	59.4% (82)	5.8% (8)	3.6% (5)	31.2% (43)	94.3%	5.7%
Issue 2b	44.2% (61)	8.7% (12)	32.6% (45)	14.5% (20)	57.5%	42.5%
Issue 3a	44.9% (62)	6.5% (9)	9.5% (13)	39.1% (54)	82.7%	17.3%
Issue 3b	31.9% (44)	5.0% (7)	25.4% (35)	37.7% (52)	55.7%	44.3%
Issue 3c	42.8% (59)	6.5% (9)	12.3% (17)	38.4% (53)	77.6%	22.4%
Issue 4a	56.5% (78)	4.3% (6)	3.6% (5)	35.6% (49)	94.0%	6.0%
Issue 4b	38.4% (53)	5.1% (7)	23.2% (32)	33.3% (46)	62.4%	37.6%
Issue 5ai	47.1% (65)	4.3% (6)	7.2% (10)	41.4% (57)	86.7%	13.3%
Issue 5aii	39.9% (55)	2.1% (3)	19.6% (27)	38.4% (53)	67.1%	32.9%
Issue 5b	41.3% (57)	2.9% (4)	7.2% (10)	48.6% (67)	85.1%	14.9%
Disclosure						
Issue 6	47.1% (65)	4.3% (6)	2.2% (3)	46.4% (64)	95.6%	4.4%
Issue 7	42.8% (59)	3.6% (5)	0.7% (1)	52.9% (73)	98.3%	1.7%
Issue 8	36.2% (50)	13.8% (19)	7.2% (10)	42.8% (59)	83.3%	16.7%
Issue 9	41.3% (57)	5.1% (7)	1.4% (2)	52.2% (72)	96.6%	3.4%
Issue 10	39.9% (55)	8.7% (12)	8.7% (12)	42.7% (59)	82.1%	17.9%
Issue 11	42.8% (59)	4.3% (6)	4.3% (6)	48.6% (67)	90.8%	9.2%
Issue 13a	30.4% (42)	4.3% (6)	21.0% (29)	44.3% (61)	59.2%	40.8%
Issue 13b	39.1% (54)	2.9% (4)	10.1% (14)	47.9% (66)	79.4%	20.6%

From Table 2 it can be seen that every issue contained in the exposure draft gained overall support from respondents who stated a position. Also, the most frequently addressed issues were issue 1a (with 14.5% of respondents not offering a comment), issue 1b (with 18.1% of respondents not offering a comment), and issue 2b (with 14.5% of respondents not offering a comment). Issues 1a and 1b were concerned with the introduction of accrual reporting and issue 2b dealt with the recognition of infrastructure assets.

Table 2 also identifies the most controversial issues; that is, those issues for which a large number of respondents stated a disagree position (despite the fact that all issues were supported overall). An arbitrary benchmark was set to classify controversial issues as those where more than 30% of respondents with a stated position disagreed with the proposal. Using this classification scheme, the most controversial issues are issue 2b (with 42.5% disagreeing with the proposal); issue 3b (with 44.3% disagreeing with the proposal); issue 4b (with 37.6% disagreeing with the proposal); issue 5a_{ii} (with 32.9% disagreeing with the proposal), and issue 13a (with 40.8% disagreeing with the proposal). Issues 2b, 3b and 4b all dealt with the measurement of infrastructure assets; issue 2b with the recognition of those assets, issue 3b with the revaluation of infrastructure assets, and issue 4b with the depreciation of infrastructure assets. Issue 5a_{ii} outlined the treatment of capital grants, while issue 13a dealt with the format of the operating statement. Carnegie and West (1997, p. 34) also noted that the infrastructure items (our items 2b, 3b and 4b) were of “substantial importance”.

Given the high level of disagreement with some issues, further investigation of the positions of the different constituent groups is warranted. Table 3 provides a breakdown, by issue, of the responses of account preparers compared to all other respondents.

TABLE 3
Overall Responses by issue for Account Preparers and Others with a Stated Position
(Nil and Neutral ignored)

Issues	Account preparers		Others		Pearson Chi-Square	Probability (Sig 2-sided)
	Agree	Disagree	Agree	Disagree		
GPFR						
Issue 1a	85.5% (65)	14.5% (11)	80.0% (32)	20.0% (8)	.584	.445
Issue 1b	82.9% (58)	17.1% (12)	83.3% (30)	16.7% (6)	.004	.951
Measurement						
Issue 2a	94.9% (56)	5.1% (3)	92.9% (26)	7.1% (2)	.148	.700
Issue 2b	50.0% (36)	50.0% (36)	73.5% (25)	26.5% (9)	5.234	.022*
Issue 3a	83.0% (44)	17.0% (9)	81.8% (18)	18.2% (4)	.016	.900
Issue 3b	48.2% (27)	51.8% (29)	73.9% (17)	26.1% (6)	4.364	.037*
Issue 3c	82.7% (43)	17.3% (9)	66.7% (43)	33.3% (8)	2.429	.119
Issue 4a	94.6% (53)	5.4% (3)	92.6% (25)	7.4% (2)	.135	.713
Issue 4b	50.8% (30)	49.2% (29)	88.5% (23)	11.5% (3)	10.877	.001*
Issue 5ai	88.9% (48)	11.1% (6)	80.9% (17)	19.1% (4)	.824	.364
Issue 5a_{ii}	81.1% (43)	18.9% (10)	41.4% (12)	58.6% (17)	13.412	.000*
Issue 5b	91.5% (43)	8.5% (4)	70.0% (14)	30.0% (6)	5.102	- ^a
Disclosure						
Issue 6	95.9% (47)	4.1% (2)	94.7% (18)	5.3% (1)	.045	.831
Issue 7	97.6% (40)	2.4% (1)	100.0% (19)	0.0% (0)	.471	.492
Issue 8	80.0% (32)	20.0% (8)	90.0% (18)	10.0% (2)	.960	.327
Issue 9	100.0% (40)	0.0% (0)	89.4% (17)	10.5% (2)	4.358	- ^b
Issue 10	84.8% (39)	15.2% (7)	76.2% (16)	23.8% (5)	.724	.395
Issue 11	93.2% (41)	6.8% (3)	85.7% (18)	14.3% (3)	.946	.331
Issue 13a	69.8% (30)	30.2% (13)	42.9% (12)	57.1% (16)	4.201	.040*
Issue 13b	87.5% (35)	12.5% (5)	67.9% (19)	32.1% (9)	3.887	.049*

* Those that are significant at probability less than .05

^a Not calculated as 1 cell has an expected count less than 5

^b Not calculated as 2 cells have an expected count less than 5

There is a statistically significant difference between the positions held by account preparers and other respondents for all of the 'controversial issues' 2b, 3b, 4b 5a_{ii} and 13a as well as for issue 13b. For issues 2b, 3b and 4b account preparers provided greater opposition to the proposals than other respondents. The fact that this one group opposed these proposals is not evidenced from Table 2 which reflects that respondents who stated a position agreed overall with these proposals. This suggests that if standard setters only consider the responses as a whole they may not realise that this one group, account preparers held different positions. The subsequent standard did not alter any of these recommendations. The account preparers' opposition to the recommendations regarding infrastructure assets strengthens the claim of other studies which contend that it is accounting for infrastructure assets which has proved most controversial (see for example Australian Institute of Valuers and Land Economists, 1997; Tamlin, 1997; Coleman, 1997; Rowles *et. al.*, 1998). Indeed

Carnegie and West (1997) argued that the continuing controversy surrounding the infrastructure issue was fuelled by the fact that the account preparers were unable to influence the accounting standard setters to change their position. They further argue that the explanation for the seeming disregard of the position of the account preparers on this issue was due to the fact that they were under-represented in the 'responses deemed of particular interest'.

Another issue where account preparers held a statistically significant different position to the other respondents was issue 5aii. The essence of the position proposed in issue 5aii is that capital grants which have conditions imposed on them are to be regarded as revenue "when conditions imposed on the grantee in exchange for receipt of the grant are satisfied" (AARF 1989a, par. 74). The perceived problem in relation to capital grants is that monies can be received in one period but not earned until future periods when the conditions attaching to those revenues are satisfied. It is acknowledged in Urgent Issues Group Abstract 11, that "contributions...usually involve significant resources and their treatment can have a material effect on the operating result and the assets and liabilities recognised in the statement of financial position" (AARF 1996, par 3). The treatment proposed in the ED is consistent with that of many overseas countries. For example, the treatment in the UK where the principle underlying SSAP4 is that grants should be credited to the Operating Statement on a basis that matches them with the expenditure they are intended to contribute towards (Accountancy, 1996).

The account preparers overwhelmingly agreed with the ED, understanding as they did that for many councils the amount of capital grants received is material, and if the monies had not been expended in a particular period then this may have the effect of 'distorting' operating statements. In contrast, the majority of other respondents disagreed with the proposal contained in the ED. When AAS 27 was issued the requirements for this issue were changed in line with the definition of 'control' contained in the Statement of Accounting Concepts. This change was consistent with the position of the other respondents rather than account preparers on this issue.

The next issue of statistical significance is issue 13a. The responses to issue 13a need to be read in conjunction with the responses to issue 6. Both of these issues concerned disclosure of revenue and expense items. Issue 6 related to proposals for the disclosure of information regarding the broad programs or activities of local governments. The reporting of program information was one of the traditional ways of reporting, and has been regarded as integral to local government reporting (Neilsen 1993). Both account preparers and other respondents were supportive of the proposal for issue 6. However, there was a statistically significant difference in the responses between the two groups for issue 13a. Issue 13a proposed reporting using the traditional accounting report of an operating statement by type (of revenue and expense) and not nature (by program). The majority of account preparers were in support of this proposal, whereas the majority of other respondents preferred an operating statement set out by nature (by program). It would appear as if the account preparers were satisfied that the disclosure of information by program augmented by an operating statement set out by type of revenue and expense was sufficient. This differs from the position of the other respondents who overwhelmingly agreed with disclosure along program lines as suggested by issue 6 with 94.7% in support and disagreed with the proposed format of the operating statement (57.1%). The proposal on issue 13a was not altered in the subsequent accounting standard, supporting the view of the account preparers.

The other issue for which there was a statistically significant difference between the two groups was issue 13b which relates to disclosure of assets and liabilities. In this case, both the account preparers (87.5%) and the others (67.9%) agreed with this proposal presumably because of the familiarity to most users of a statement of assets and liabilities (Balance Sheet). The difference merely reflects the fact that account preparers were in stronger support of this issue than other respondents.

In summary, the analysis identified a number of key issues which were identified by respondents. Further analysis by respondent group revealed statistically significant differences in positions with account preparers more likely to disagree with recognition, measurement and depreciation of infrastructure assets and more likely to agree with the treatment of capital grants and the disclosure provisions contained in the exposure draft.

Respondent lobbying strategies

Table 4 presents the arguments used by respondents classified by the type of supporting argument used. Overall, it reveals that the majority of respondents (66.0%) did not use arguments to support their positions. This finding is consistent with that of other public sector accounting research (Ryan, *et. al.*, 1999; Carnegie and West, 1999), but differs from the Australian experience with private sector standards (Tutticci *et. al.*, 1994).

Table 4
Arguments used by issue for those who responded with a position
(NIL and NEU ignored)

Issue	Conceptual		Economic		Both		None		Total No
	%	No	%	No	%	No	%	No	
Overall	23.9%	356	6.2%	93	3.9%	58	66.0%	983	1490
GPFR									
Issue 1a	18.1%	21	0.9%	1	1.7%	2	79.3%	92	116
Issue 1b	22.6%	24	0.9%	1	0.9%	1	75.5%	80	106
Measurement									
Issue 2a	39.1%	34	8.0%	7	10.3%	9	42.5%	37	87
Issue 2b	45.3%	48	11.3%	12	19.8%	21	23.6%	25	106
Issue 3a	41.3%	31	8.0%	6	6.7%	5	44.0%	33	75
Issue 3b	36.7%	29	8.9%	7	11.4%	9	43.0%	34	79
Issue 3c	39.5%	30	6.6%	5	7.9%	6	46.1%	35	76
Issue 4a	16.9%	14	15.7%	13	1.2%	1	66.3%	55	83
Issue 4b	18.8%	16	20.0%	17	3.5%	3	57.6%	49	85
Issue 5ai	16.0%	12	1.3%	1	0.0%	0	82.7%	62	75
Issue 5aii	24.4%	20	1.2%	1	0.0%	0	74.4%	61	82
Issue 5b	14.9%	10	1.5%	1	0.0%	0	83.6%	56	67
Disclosure									
Issue 6	19.1%	13	20.6%	14	1.5%	1	58.8%	40	68
Issue 7	10.0%	6	0.0%	0	0.0%	0	90.0%	54	60
Issue 8	30.0%	18	1.7%	1	0.0%	0	68.3%	41	60
Issue 9	10.2%	6	6.8%	4	0.0%	0	83.1%	49	59
Issue 10	16.4%	11	3.0%	2	0.0%	0	80.6%	54	67
Issue 13a	12.7%	9	0.0%	0	0.0%	0	87.3%	62	71
Issue 13b	5.9%	4	0.0%	0	0.0%	0	94.1%	64	68
Both – Both conceptual and economic arguments									

For those that did use a supporting argument, a conceptual argument was more likely to be used than an economic argument (23.9% as opposed to 6.2%). Prior public sector (see Ryan *et. al.*, 1999), and private sector research (see Tuticci *et. al.*, 1994) has similarly identified the popularity of conceptually based supporting arguments. Indeed, in the private sector where there is a long history of responding to exposure drafts, researchers

contend that respondents attempt to mask their economically driven motivations because they perceive that the standard setters will consider their position as being opportunistic (Tutticci *et. al.*, 1994).

Of further interest is the fact that the only issues for which a majority of respondents provided a supporting argument were measurement issues (issue 2a, 2b, 3a, 3b, 3c). This is consistent with prior research that finds respondents are more likely to use supporting arguments, especially conceptual, for measurement issues (see Tutticci *et. al.*, 1994). The majority of respondents to two of the most controversial issues, those surrounding the recognition and revaluation of assets infrastructure assets (issue 2b and 3b), have attempted to weight their responses with supporting arguments. In the case of issue 2b, 45.3% used conceptual arguments alone and for issue 3b it was 36.7%. Some respondents provided both conceptual and economic consequences arguments. This means that the 65.1% and 48.1% of responses on issues 2b and 3b respectively, provided conceptually based supporting argument (this includes instances where both a conceptual and economic consequences argument was provided). The use of this lobbying strategy has not previously been identified in prior public sector research. Ryan *et. al.* (1999) found no evidence that respondents to the exposure draft *ED 55* dealing with accounting for government departments employed this lobbying strategy.

Interestingly, responses to the other most controversial issues (issue 4b, issue 5a_{ii} and issue 13a), were not generally weighted with supporting argument with 57.6%, 74.4% and 87.3% of respondents respectively, not providing a supporting argument. While this finding seems anomalous with the contention that lobbyists will use supporting arguments in an attempt to weight the importance of their response, this may still be the case for some respondents. The fact that account preparers held significantly different positions on these issues suggests that these respondents may have adopted different lobbying strategies as well. The analysis presented in Table 5 addresses this possibility.

Table 5
Arguments by Issue for Account preparers and Others with a Stated Position
(Nil and Neutrals ignored)

Issue	Account preparers				Other				Chi-Square Test of Differences between the Propensity of each Group to Offer an Argument	
	Argument			None	Argument			None	Pearson Chi-Square	Probability (Sig 2-sided)
	Conceptual	Economic	Both		Conceptual	Economic	Both			
GPFR										
Issue 1a	14.5%	0.0%	2.6%	82.9%	25.0%	2.5%	0.0%	72.5%	1.726	.189
Issue 1b	22.9%	0.0%	0.0%	77.1%	22.2%	2.8%	2.8%	72.2%	.311	.577
Measurement										
Issue 2a	42.4%	6.8%	13.6%	37.2%	32.1%	10.7%	3.6%	53.6%	2.060	.151
Issue 2b	48.6%	11.1%	23.6%	16.7%	38.2%	11.8%	11.8%	38.2%	5.961	.015*
Issue 3a	43.4%	11.3%	3.8%	41.5%	36.4%	0.0%	13.6%	50.0%	.455	.500
Issue 3b	37.5%	12.5%	8.9%	41.1%	34.8%	0.0%	17.4%	47.8%	.303	.582
Issue 3c	40.4%	9.6%	3.8%	46.2%	37.5%	0.0%	16.7%	45.8%	.001	.979
Issue 4a	16.1%	21.4%	1.8%	60.7%	18.5%	3.7%	0.0%	77.8%	2.373	.123
Issue 4b	18.6%	27.1%	5.1%	49.2%	19.3%	3.8%	0.0%	76.9%	5.701	.017*
Issue 5ai	7.4%	1.9%	0.0%	90.7%	38.1%	0.0%	0.0%	61.9%	8.774	- ^a
Issue 5aii	7.5%	1.9%	0.0%	90.6%	55.2%	0.0%	0.0%	44.8%	20.583	.000*
Issue 5b	4.3%	2.1%	0.0%	93.6%	40.0%	0.0%	0.0%	60.0%	11.554	- ^a
Disclosure										
Issue 6	18.4%	26.5%	2.0%	53.1%	21.1%	5.2%	0.0%	73.7%	2.404	.121
Issue 7	4.9%	0.0%	0.0%	95.1%	21.1%	0.0%	0.0%	78.9%	3.774	- ^b
Issue 8	35.0%	2.5%	0.0%	62.5%	20.0%	0.0%	0.0%	80.0%	1.887	.170
Issue 9	5.0%	7.5%	0.0%	87.5%	21.1%	5.2%	0.0%	73.7%	1.747	- ^a
Issue 10	15.2%	2.2%	0.0%	82.6%	19.0%	4.8%	0.0%	76.2%	.380	- ^a
Issue 13a	11.6%	0.0%	0.0%	88.4%	14.3%	0.0%	0.0%	85.7%	.108	- ^a
Issue 13b	5.0%	0.0%	0.0%	95.0%	7.1%	0.0%	0.0%	92.9%	.137	- ^b

Both – Both conceptual and economic arguments

* Those that are significant at probability less than .05

^a Not calculated as 1 cell has an expected count less than 5

^b Not calculated as 2 cells have an expected count less than 5

It has previously been discussed that on issues 2b, 3b and 4b, the account preparers were more likely to disagree with the provisions of the exposure draft than other respondents (see Table 3). Table 5 indicates that account preparers provided supporting argument more often than the other respondents on issues 2b and 4b. It is also notable that for these two issues, account preparers were prepared to offer arguments based on economic consequences in addition to the large proportion that provided conceptual arguments alone. For issue 2b, 34.7% of account preparers offered an economic argument either alone or together with a conceptual argument and for issue 4b, 32.2% of account preparers did so. This finding contrasts with prior private sector research that suggests that one lobbying strategy that is adopted by respondents is that they attempt to mask

their interest in economic consequences by presenting conceptually based arguments (Tutticci *et. al.*, 1994). The contention is that the standard setters would be more persuaded by conceptually based arguments rather than economic consequences arguments that may be steeped in self-interest⁴. The account preparers, in the case of *ED 55*, did not adopt this lobbying strategy (Ryan *et. al.*, 1999).

The combination of the evidence supplied in Tables 4 and 5, reflects that the majority of all respondents offered supporting arguments for their positions on the first two issues relating to accounting for infrastructure assets (issues 2b and 3b), and that account preparers also offered supporting arguments for the third infrastructure assets issue (issue 4b). This is consistent with prior research which suggests that respondents are more likely to provide argument in support of their position on more controversial issues, especially if they disagree with the proposals (Tutticci *et. al.*, 1994). A similar position can be seen for issue 5a. For this issue, the 'other' category of respondents disagreed with the provision (see Table 3), and thus, consistent with prior research, 55.2% of those respondents used a supporting argument to reinforce their position.

In summary, while the majority of respondents did not use arguments to support their positions, there is evidence that some respondents did adopt this lobbying strategy for some of the issues. All respondents were more likely to provide supporting arguments on more controversial issues and where they disagreed with the proposal of the standard. In particular, account preparers were found to have provided more supporting arguments than other respondents for issues addressing accounting for infrastructure assets. Account preparers were also more likely to provide economic consequences arguments.

CONCLUSIONS

This study has examined constituent participation in the 'due process' for the accounting standard for local government (*ED 50*). The most significant finding was that local governments (account preparers) comprised the majority of respondents to *ED 50* with approximately 11% of the total possible respondents in this group in Australia providing a response. The strong participation of this group for *ED 50* contrasts sharply with the low level of participation observed by Ryan *et. al.* (1999) for *ED 55* which was issued in 1992, three years later.

The second finding concerned the key issues and the positions held by respondents. Content analysis was applied to the responses to *ED 50* to identify these. This analysis showed that every issue gained overall support. However, the analysis was also able to identify the five most controversial issues contained in the exposure draft. These were the issues dealing with the recognition, revaluation and depreciation of infrastructure assets; recognition of capital grants; and the format of the disclosure of revenues and expenses in the operating statement. This is consistent with the findings of Carnegie and West (1997) who report that the issues relating to accounting for infrastructure assets were the most important to the respondents. Moreover, the content analysis indicated that account preparers held different positions to other respondents on these issues. This would seem to indicate that the account preparers were unable to persuade the standard setters to their position. While it is beyond the scope of this study to address the effectiveness of the lobbying strategies of constituents, it is notable that the largest group, account preparers, disagreed with some fundamental proposals of the standard.

Thirdly, the content analysis also addressed whether the respondents had adopted the lobbying strategy of weighting their responses by providing supporting arguments. It was found in general that respondents did not provide supporting arguments for their positions. However, consistent with prior research, respondents were found to be more likely to offer supporting arguments for the provisions they disagreed with and for the more controversial issues. Account preparers were more likely to provide supporting

arguments than other respondents for issues dealing with accounting for infrastructure assets, which is consistent with the fact that they disagreed with these issues.

This study has found no evidence that the 'due process' failed to operate in an open and neutral manner. In the case of *ED 50*, account preparers had full access to the process by being active participants who presented their positions and did adopt the lobbying strategy of weighting their responses with supporting arguments for the more controversial issues. This has implications for the public sector accounting standard setting process in Australia, particularly when interpreted in the light of the findings of prior studies. This study examined the standard setting process in the late 1980s at the time of the first public sector accounting standard. It has found no systemic problems with the process. However, three years later, by 1992 studies by Ryan *et. al.* (1999) and Ryan (1999) found evidence of problems, particularly in relation to impaired access of some constituents and favourable access of other constituents. It could be argued that as time transpired, the public sector accounting standard setting process had become influenced by powerful groups. This is consistent with evidence in the private sector in Australia (see for example, Hines, 1989), and overseas (see for example, Solomons 1978).

These implications are extremely timely given the changes to the standard setting process in Australia. It has been demonstrated that in the current public sector standard setting process, it is possible for some groups of constituents to gain favourable access depending on circumstances. Nevertheless, the groups involved were constituents who had an interest in public sector issues. In the new regime where public sector priorities must jostle for a position on the agenda with private sector issues, there is a danger that public sector issues will become marginalised. Future developments in relation to mapping the interests and projects undertaken within the new regime will deserve the attention of researchers.

This study has the limitations that it has employed content analysis as a means of objectively investigating responses to *ED 50*. This method does not provide for the qualitative analysis of responses and does not address other means of participating in the

‘due process’. This study has examined an historical instance of the operation of the ‘due process’ in a continually evolving environment where alliances are formed and changed according to specific circumstances. The differences in the lobbying behaviour observed in this study for *ED 50* and prior research on *ED 55* is consistent with such evolutionary changes. Future research could provide a rich understanding of the operation of the ‘due process’ by mapping constituent involvement in the development of *ED 62* Financial Reporting by Governments (AARF, 1995) the exposure draft issued after *ED 55*. Further, given the contentious nature of the issues surrounding accounting for infrastructure assets as it pertains to local governments, it would be interesting to examine the continuing interactions between constituents and standard-setters on these issues. In addition this study has not directly investigated the factors that motivate constituents to choose to participate in the ‘due process’. In addressing this issue, future research could provide greater insight into both the drivers and perceived impediments to participation in the ‘due process’.

ENDNOTES

¹ Both researchers were qualified accountants with post-graduate research experience.

² Greenall *et.al.* (1988) note that there were 849 local governments in existence in 1988.

³ Ryan *et.al.* (1999) include representative groups in the class 'other respondents' due to their low number.

⁴ In the case of *ED 50*, Carnegie and West (1999) document the under-representation of account preparers in the 26 responses deemed to be of 'particular interest' by the staff of AARF. One explanation for this under-representation may have been that the extent of economic consequences arguments provided in the responses of account preparers were not perceived as being objective

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