PUBLIC SECTOR REPORTING SYSTEMS; A GLOBAL CHALLENGE

EDITORIAL

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1. Background and Scope

The financial market turmoil of 2008 has challenged Public Sector (governmental) reporting agencies as well as those in the for-profit sector. Many states are struggling to finance existing services to citizens and this is being exacerbated by the tax bases. States are searching for ways to continue services by using creative financing strategies. In my home state of California, unpaid furloughs have been imposed on state university faculty and the state government has even resorted to issuing IOUs. The continuing rise in unemployment numbers also exacerbates the problem. The pressure to maintain performance indicators is a challenge and some solutions present reporting and privacy problems for state agencies and auditors. The International Public Sector Accounting Standards Board has issued an exposure draft for a new conceptual framework system for external financial reporting and the U.S Government Accounting Standards Board is reviewing performance reporting criteria. This highlights the need for improved internal controls by public sector agencies.

2. Reviewers

I would like to express my gratitude to the following scholars who acted as reviewers for this special issue;

- Adebayo Agbejule, Finland
- Jeff Decker, U.S.A.
- Joe Kastantin, U.S.A.
- John Karayan, U.S.A.
- Philomena Leung, Australia
- Milorad Novicevic, U.S.A.
- Judy Sage, U.S.A.
- Lloyd Sage, U.S.A.
- Nihel Chabrak, France

- Ken Smith, U.S.A.
- Olof Wahlberg, Sweden
- Steve Cahan, New Zealand

3. Papers in this Special Issue

The eight papers in this special issue present a critical view of various government actions post the 2008/2009 financial tsunami. The authors have used different analytical techniques and accordingly have discussed the various topics using diverse theories. All papers make recommendations for the selected problems. The papers presented are written by authors from several countries with different socioeconomic makeups and thus, this issue takes an important step into the global literature.

The first paper is written by Simona Alfiero and Silvana Secinaro. This paper reports on the implementation of an organizational model for financial reporting by companies owned by local public agencies in Italy. The authors examine the characteristics and functions of corporate boards of directors within government and proposes a framework for the analysis of government systems. This framework highlights similarities as well as differences and results in a model of best practice for this type of company.

The second paper written by Suhani Anuar and Radiah Othman examines the online tax payment system in Malaysia from a user perspective and seeks user acceptance or rejection of the system. The study uses the Technology Acceptance Model to identify factors affecting the taxpayer's acceptance of the online payment system in Malaysia and includes additional constructs such as subjective norms, self efficacy and perceived credibility. It was found that the online tax payment system was not easy to use and was found to be short on information and credibility.

The authors of the third article, Zhang Jidong and Wang Liyan, look at Chinese companies that implement ERP systems and their corporate governance. As ERP systems are supposed to enhance information flow for enterprises it would be expected that information asymmetries would be identified. Therefore, the ERP system information flow helps resolve principal agent problems and improve corporate governance. The authors use the samples from companies listed on the Shanghai and Shenzhen stock markets and found that very few independent directors were willing to implement an ERP system. On the other hand, directors with a relatively high degree of ownership in state owned enterprises were more willing to implement an ERP system. Generally it was found the companies with poor corporate governance were more willing to consider implementation of ERP systems while companies with better corporate governance were less motivated to consider the same.

The fourth paper, written by Ken Chen and Jo-Lan Liu, deals with earnings management by Taiwanese companies. This study examines the earnings management behavior in an emerging market where growth opportunities and weak corporate governance prevail. The authors first examined weather the earnings management phenomenon was less prevalent following the implementation of corporate governance best practices in Taiwan. Then they examined the relationship between CEO dominance and earnings management in growth settings. They were particularly interested to find weather the independence of corporate boards (non CEO dominated) displayed independence by having less evident earnings management. This finding, of course reinforces the board of directors responsibility for good corporate governance. It was found that high growth firms are more likely to engage in earnings management and a strong correlation was found between high growth firms and contracting theory. Not surprisingly, independent corporate boards were found to mitigate earnings management behavior even though high growth opportunities existed.

The fifth article by Hua-Wei Huang and Sheela Thiruvadi examines the role of audit committees after the early third millennium collapses of Enron and Worldcom and the tension given by securities regulators to the function of audit committees. This study documents the association between audit committee characteristics and fraud prevention. One important aspect of the findings is that audit committee financial experts play an important role in preventing fraud.

Their examination involved the study of three variables, (1) the number of audit committee meetings, (2) the number of audit committee members, and (3) the number of financial experts. The conclusions of this study were somewhat surprising in that (a) meetings frequency of the suit committee is not associated with fraud prevention, (b) the number of audit committee member doesn't affect fraud prevention, (c) financial experts are significantly associated with fraud prevention, (d) audit committees that have at least one female director function differently that all male audit committee, and (e) Big 4 clients are more likely to have audit committee financial experts than non-Big 4 clients.

The sixth article by Bruce Neumann, James Gerlach and Hyo-Jeong Kim looks at the effectiveness of the Colorado Benefits Management System (CBMS). The authors used agency theory to help explain why certain public expectations were not met by CBMS. They found that IT vendors, the public and state agencies have different goals, risk preferences and information needs. Each used different measures to evaluate government IT projects. The authors found that state and IT vendors evaluated the CBMS IT project using more process-based accountability measures while the public and counties evaluated the project using outcome-based measures. The authors suggest that these mismatched measurements could lead to disputes and/or litigation.

The seventh article by Lloyd and Judith Sage examines the U.S. Government Accounting Standards Board proclamation for greater transparency in government (public sector) reporting. The authors recommend that public sector units need to provide discussion and analysis if the results that are reported in the performance (SEA) report. They emphasize that the discussion section should be written in objective language and should address the major challenges facing the government unit in accomplishing its goals and objectives. They qualify this by suggesting that a lengthy treatise is not appropriate but in fact, the discussion analysis should be *concise, yet comprehensive.* The authors follow the GASB proclamation and examine the qualitative characteristics deemed desirable to effectively communicate performance information to users. The six qualitative characteristics examined include relevance, understandability, comparability, timeliness, consistency and reliability.

Robert Bjorklund, in the eighth article and last in this special issue, examines the efforts to improve governance in the US banking sector. After decades of attention to improving bank boards it was felt that by adding outside and independent members and being cognizant of diversity, especially age, gender, and background, Surowiecki observed that there was little evidence that these changes have made a difference in improving bank performance. This notion leads to the paradox that we want diverse groups to represent more stake-holders in making decisions, but because the members are diverse, it may reduce their ability to communicate with each other. The purpose of this paper is to consider four related questions pertaining to Mr. Surowiecki's observation of bank boards. First, why should bank's trustee boards be diversified, and how should that make a difference in bank performance? Second, at what cost are bank trustee boards diversified? Third, did bank trustee board diversification actually happen, and what are the outcomes to which we can point?

The author examines reasons for differences in member participation rates.

Examples proffered are:

1. Age, where a significantly older or younger member may be uncomfortable.
2. Gender, where a member of a board is the only woman or man, and feels marginalized.
3. Race, where a member of an under-represented race feels a lack of respect from or toward the group.
4. An "outside" member of any board who is expected to play an important role.
5. A member whose educational level or type is different from most members
6. A very introverted person
7. A person new to the organization or with less experience
8. Emotional Intelligence
9. Personal Wealth

These are just a few categories where the author notes that significant diversity-participation challenges commonly occur. Some board members feel out of place, unable, or unwilling to share important data that would influence the outcome of the board. The author recounts that we have all experienced the feeling of being the odd member, and we have all experienced being in a group where someone else did not participate.

However in this case, the "simpler theory is the better theory". Bjorklund does not believe there is a need for a different approach to solving each different type of board participation setting. He believes that patience is the one factor that can overcome all of these challenges resulting from the diversity-participation-paradox.

The call for papers for this special issue produced a potpourri of papers from across the the public information systems spectrum. Eclectic research methods were presented to handle the different topics. Accordingly it took longer than anticipated to find appropriate blind reviewers and prevail upon them to intensely review the submissions.

The eight papers that survived the rigorous blind refereeing process are presented here for your enlightenment and enjoyment.

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