

The use and perceived usefulness of public sector financial statements by politicians – evidence from Croatia

Ivana Pajković

Faculty of Economics and Business, University of Zagreb, Zagreb, Croatia

Nives Botica Redmayne

*School of Accountancy, Massey University – Manawatu Campus
, Palmerston North, New Zealand, and*

Vesna Vašiček

*Department of Accounting, Faculty of Economics and Business, University of Zagreb,
Zagreb, Croatia*

Abstract

Purpose – This study analyses to what extent politicians use public sector entities' financial statements along with the politicians' perceptions of the usefulness of such statements in the politicians' decision-making. The authors analyze financial statements' use and usefulness when the statements are prepared on a modified accrual basis and in the setting where there is the intention of full accrual accounting adoption. In addition, this study provides information about the use of the individual components of financial statements and investigates the reasons why the statements may not be used.

Design/methodology/approach – This study was conducted using a questionnaire. The authors surveyed politicians that are members of Croatian public sector bodies. To conduct this research, the politicians were contacted by telephone over the period from February to April 2022.

Findings – The findings of this study are of potential interest to researchers, regulators and policy makers. The findings show that most politicians use financial statements, but the politicians' perception of the statements' usefulness when the statements are prepared on a modified accrual accounting basis is greater than the politicians' actual use of the statements. The findings also show that in the process of making decisions, politicians use the selected financial statements that contain information of interest to the politicians; that the politicians tend to gravitate to the use of reports on revenue, expenses, receipts and expenditure prepared on modified accrual bases which are closer to budgetary reporting; that the politicians use the information that supports the politicians' sphere of responsibility as enforced by legislation.

Originality/value – This study provides insights into the use and usefulness of financial statements in public sector setting where modified accrual accounting is used to prepare the statements and reports. This

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study provides additional evidence on the significance of legal setting to the financial reporting in public sector.

Keywords Politicians, Use, Usefulness, Financial statements, Modified accrual accounting, Public sector accounting

Paper type Research paper

Introduction

Financial statements provide accounting information to stakeholders about the efficient management of assets and resources. Standard setters and legislators issue requirements to assure a minimum level of information that is provided in financial statements and to standardize reporting for different stakeholders. Financial statements based on such standardized reporting play an important role in providing high-quality information for decision-making, especially to stakeholders about the management of assets in public sector (Dragija, 2014). Production and disclosure of financial statements often require significant resources. It is therefore important to understand whether stakeholders do use them (Skærbæk, 2005).

According to IPSASB (2014), the objective of financial reporting by public sector entities is to provide information that is useful to information users for accountability and decision-making purposes. Although citizens are a prominent group of information users (Daniels and Daniels, 1991), research has shown that in practice, citizens are not extensive users of governments' financial statements (Jones, 1992; Herawaty and Hoque, 2007). However, politicians might be. In a democratic society, citizens are represented by elected politicians, who, due to their responsibilities and consequent decision-making on policy programs and projects, are considered the main users of accounting information (Van Helden and Reichard, 2019). In addition, in a democratic society there is an expectation that elected politicians are using accounting information to discharge their accountability (Guarini, 2016). Although previous research regarding politicians' use of financial information and performance information has been published in the last decade, Van Helden (2016) highlights that this area is still under researched, and it warrants further academic interest. Such research is also encouraged in light of some countries conducting public sector reforms with a view to increase accountability in the public sector. These reforms have initially entailed the transition from cash accounting to accrual accounting. In the public sector, this transition is also expected to contribute to the use of financial information and financial statements that are prepared on a basis other than cash – generally, either a modified accrual basis or a full accrual accounting basis (Ezzamel *et al.*, 2005). Previous research (Van Helden, 2016) also shows that there is a difference between the use and the perceived usefulness of financial statements when it comes to politicians.

In Croatia, financial statements are prepared on a modified accrual basis. Previous limited research showed that public managers in Croatia considered that financial statements are not of a high enough quality to make efficient management decisions in the public sector (Hladika, 2014). However, more recent research conducted in Croatia shows that public managers consider both cash and accrual-based financial statements as very useful for making decisions (Poljašević *et al.*, 2021). However, this prior research focused on the perceived usefulness of the statements, while politicians were not asked whether they actually use financial statements and what their preferences might be. Yet, the accounting basis and the adoption of financial statements in Croatia are to be based on International Public Sector Accounting Standards (IPSAS), which are meant to lead to financial statements standardization (Gomes *et al.*, 2023) and the increase in their potential usefulness.

Following previous arguments, the aim of our research is to investigate whether and how politicians do use prescribed financial statements and to investigate their perception of financial statements' usefulness where the financial statements are prepared in Croatian setting using modified accrual accounting basis. In addition, our study aims to provide evidence on the use of the individual components of financial statements.

This paper is divided into five sections. After the introduction, the main characteristics of public sector accounting and financial reporting in Croatia are presented. The following section contains a review of the existing literature on the use and usefulness of public sector entities' financial statements from politicians' points of view. In that section, we also develop our research questions. The methodology, research results and analyses are presented in the fourth section of the paper prior to the concluding section that summarizes the main findings of our research, outlines limitations and proposes some future research.

Financial reporting by public sector entities in Croatia

In Croatia, the Budget Act (Official Gazette 144/21) is the main law that governs accounting by public sector entities and the process of the preparation and adoption of budget execution. According to the Budget Act, budgetary accounting is based on the national accounting rules established in the Ordinance on Budgetary Accounting and the Chart of Accounts. Apart from this legislative framework, Croatia has not yet developed any public sector accounting or reporting national standards.

Following the Budget Act, the current reporting system for public sector entities in Croatia is separated into two main sets of reports: the semi-annual and annual budget execution reports and the financial statements. Reporting about budget execution is mainly based on cash accounting.

The Ordinance on Budgetary Accounting and Chart of Accounts (Official Gazette 124/14) is another piece of regulation which prescribes that budgetary accounting is to be prepared on a modified accrual accounting basis and that the modified accrual accounting basis is also to be used in the process of preparing financial statements.

The Ordinance on Budgetary Accounting and Chart of Accounts (Official Gazette, 124/14) states that:

- (1) Depreciation expenses for non-financial long-term assets are not recognized;
- (2) Revenue and expenses due to changes in the value of non-financial assets are not recognized;
- (3) Revenue is recognized in the period in which it is available and can be measured (that is, revenue can be recognized on cash basis only);
- (4) Expenses are recognized when transactions occur, irrespective of the actual time of payment (that is, expenses are accrued);
- (5) Expenses for the consumption of current non-financial assets (such as inventory) are recognized at the time of purchase and at their purchase value at the time of purchase;
- (6) When non-financial assets are donated, related income and expenses are recognized at the time of donation.

The valuation of assets, liabilities and capital is also based on modified accrual accounting using the historical cost valuation method. The above rules are expected to be applied consistently by all public sector entities in their accounting records. The Budget Act (Official Gazette 144/21) also states that financial statements presented by public sector entities should present the status and structure, changes in the value of assets, liabilities and own sources/reserves, revenue, expenditure, receipts and expenses as well as cash flows. In addition, the Ordinance on Financial Reporting in Budgetary Accounting (Official Gazette 37/22) prescribes the format and content of financial statements, obligations and submission deadlines. This Ordinance states that the main purpose of financial statements is to provide information on financial position and performance in relation to the set of objectives that underly the budget, as well as the budgetary and extra-budgetary use. The prescribed financial statements expected to be prepared are:

- (1) Balance sheet;
- (2) Statement on revenue, expenses, receipts and expenditures;
- (3) Statement on expenditures according to functional classification;
- (4) Statement of changes in the value and volume of assets and liabilities;
- (5) Statement on liabilities; and
- (6) The notes.

The balance sheet reflects the value of total assets, total liabilities and net assets. In addition to the data presented in the balance sheet, two other reports are prepared. The statement of changes in the value and volume of assets and liabilities contains changes in the value of assets and liabilities that have no impact on or connection to the revenue, expenses, receipts and expenditure for the reporting period and are not accompanied by the cash flow. In the statement on liabilities, liabilities are listed by maturity, to present the matured and unpaid obligations. [Vašiček \(2015\)](#) stated that by comparison, financial statements prepared by applying IPSAS 1, the difference between those financial statements and the rest of the reports is not just formal – (that is, in the name of the reports and the structure of the reports only), the difference is also evident in the information capacity of various reports. According to the national regulations, the balance sheet focuses less on the financial position and more on the function of the value of assets and liabilities, without the claim of assisting in observing the liquidity of assets and changes in the net assets values.

In the statement on revenue, expenses, receipts and expenditure there is a combined recognition of revenue, expenses, receipts and expenditure on both accrual and cash accounting basis. This is mainly because revenue is recognized on cash basis while expenses are accrued. Moreover, public sector entities do not prepare a statement of cash flow. They prepare cash flow elements which are contained in the statement on revenue and expenses and receipts and expenditure. This is due to the use of a cash accounting basis for recognition of receipts and expenditure.

In addition, in accordance with the Budget Act and the Ordinance on the Semi-Annual and Annual Report on Budget Execution (Official Gazette 24/13), the Ministry of Finance in Croatia prepares the Report on Budget Execution, which is adopted in the legislature sessions of the Parliament. Public sector entities also prepare previously mentioned financial statements which are publicly disseminated and sent to the Ministry of Finance. These financial statements are publicly available, but there is no process of officially adopting them during the legislature sessions in the Parliament, unlike of what is the case with the report on budget execution. The fact that the budget execution reports are publicly adopted at legislature sessions in Croatia, appears to indicate that these reports are more important than financial statements, not publicly adopted at such legislature sessions ([Vašiček et al., 2022](#)).

Given that Croatia is applying modified accrual accounting in the public sector, some progress towards the application of full accrual accounting already exists ([Vašiček and Roje, 2019](#)). In addition, since Croatia is a member of the European Union and there are recommendations by the European Commission for harmonization of the reporting system in public sector accounting among members of European Union, including implementation of full accrual accounting, Croatia will also have, as a member state, an opportunity to implement European Public Sector Accounting Standards (EPSAS) once they are developed ([Vašiček et al., 2022](#)). To that end, it can be expected that further reforms will happen in Croatia in the near future. In light of the potential future changes in the public sector as expected in Croatia, we therefore research whether politicians are familiar with financial statements and the reports produced by public sector entities and whether they actually use

them. We also investigate the potential reasons for not using them. Further, we capture politicians' perceptions on the usefulness of financial statements. We anticipate that our findings will be useful in the next stage of modification and change in public sector reporting in Croatia and more broadly in countries with similar processes and challenges, especially in Southeast Europe.

Literature review

Financial statements as tools for improving accountability

According to the IPSASB, the purpose of financial statements in the public sector is to provide information about the financial position, financial performance and cash flows of public sector entities, which are useful to stakeholders for decision-making processes and for evaluating resource allocation decisions (IPSASB, 2014). Van Helden and Reichard (2019) emphasized that the two main roles of accounting information are accountability and providing support in the decision-making process. Accountability is the most important objective from which all other objectives must flow (Patton, 1992), especially in the public sector.

To function on various levels in the public sector, accountability must include transparent disclosure of information, including accounting information (Barton, 2009). That information forms the basis for constructive dialog with various stakeholders (Mulgan, 2000) and it is an important element of external oversight (Scott, 2000; Sinclair, 1995). Within the concept of accountability in the public sector, the availability and disclosure of accounting information is critical; however, there is also a requirement for that information to be (1) reliable and qualitatively satisfactory, (2) understandable, (3) accessible, (4) broadly disseminated and distributed (Coy *et al.*, 2001). Following from the concept of accountability in the public sector and the role of financial statements in discharging that accountability, the shape and content of financial statements should also depend on users and their information needs. Financial statements should satisfy general and common information needs of their potential users. The range of users of financial statements in the public sector varies (Tagesson, 2015). The IPSASB (2014) identified three main groups of potential users: recipients of services or their representatives; providers of resources or their representatives; and other parties, including special interest groups and their representatives. In the literature, academics prefer to divide users into internal and external (Brusca, 1997; Steccolini, 2004; Tooley *et al.*, 2010). While external users are citizens, auditors, banks, investors and academics, internal users are councilors and executive members, public managers and civil servants. According to Aversano *et al.* (2018), politicians are partly external users because they do not exert a direct impact on the preparation of financial statements. They are also partially internal users because they can exert an indirect impact over the management who prepare financial statements.

The concept of accountability is not just about providing information or answering questions, but extends to the activities that include setting goals, providing and reporting results and the visible consequences of conducted activities (Mulgan, 2000). Glynn and Perkins' (1997) study of market control and accountability in the British National Health Service identified six public sector responsibilities, including financial accountability. Financial accountability is increasingly in the focus of accounting information systems that are being redesigned and improved to expand the scope of information about financial costs and results for governments. Politicians are therefore expected to be accountable on how they use money, in accordance with the public purpose, so to assure the public that they do not abuse the power they wield on behalf of citizens (Behn, 2001). Financial statements are meant to assist in the process of financial accountability.

Studies on how politicians use financial statements as well as studies about perceptions of the usefulness of financial information emerged in the last decade in a number of international journals of accounting and public administration (Van Helden, 2016). In his literature review Van Helden (2016) suggests that the focus on financial statements' uses and usefulness is caused by changes that a number of countries implemented in their public sector accounting systems over the last decade and across different levels of government. Such changes were generally implemented under the umbrella of New Public Management (NPM), with the aim of better financial management in the public sector and, significantly, they included accounting, budgeting and reporting reforms (Bergmann, 2012). In order to improve the quality of information, changes were largely related to the transition from traditional cash accounting to accrual accounting. This is in accordance with previous studies (Bergmann, 2012; Hughes, 2013; Christiaens *et al.*, 2015) providing evidence that financial statements prepared under cash accounting do not provide enough information for making quality decisions in the public sector. To that end, accrual accounting has been reported as providing higher quality information that improves planning, finance management and is better suited to making long-term decisions (FEE, 2007). Ismail (2022) researched the perceived usefulness of financial information prepared on accrual basis, in reference to accountability and decision-making process in public sector entities in Malaysia. Her results show that accountants consider accounting information prepared on accrual basis very useful for decision-making. Research by Nakmahachalasint and Narktabtee (2019) shows that after implementing accrual accounting in Thailand's public sector, the quality of financial statements overall enhanced accountability. Ezzamel *et al.* (2005) emphasized that new accrual accounting systems enable more appropriate management by providing high-quality key information needed in making decisions. Furthermore, a study by PwC (2013) showed that financial statements prepared using IPSAS or equivalent standards based on accrual accounting, are useful for politicians because they enable better understanding of public finance. As mentioned in the previous section, Croatia is transitioning towards full adoption of accrual accounting in the public sector, so this is a setting where modified accrual accounting is currently used. Similar to other countries in such transition, very little is known about how the information and financial statements prepared under these conditions and bases are of any use or usefulness to the intended users.

Financial statements use and perceived usefulness

Given the fact that financial statements are recognized as the main tool in improving accountability and they are key in decision-making (Mack and Ryan, 2006; Ezzamel *et al.*, 2004), the research focus by some academics has been to ascertain whether politicians actually do use financial statements prepared by public sector entities (Yamamoto, 2008; Christiaens *et al.*, 2015; Caruana and Farrugia, 2018; Jorge *et al.*, 2019). The conclusion in these previous studies is that usage of such accounting information by politicians is limited.

Stecollini (2004) tried to determine the real role of local government's financial statements in discharging accountability to potential users. Her results show that information disclosed in the statements is largely used to discharge responsibility towards internal users (councilors and managers) and not as a communication tool with external users (citizens). Although financial statements are generally considered to be the primary medium of accountability (Mack and Ryan, 2006), some previous studies found that there is little demand for the information disclosed in such financial statements (Jones and Pendlebury, 1996), or that the statements do not contain all relevant information for supposed user needs (Jones *et al.*, 1985).

Researching the usage of annual financial statements by Maltese parliament members, Caruana and Farrugia (2018) show that usage is indeed limited. They identify the reasons for

no use, the primary one being that financial statements might not be the main avenue to discharge accountability by politicians. In addition, information characteristics of public sector financial statements such as the technical jargon, their late publication, highly detailed reports and the lack of summaries also have negative impact on politicians using public sector financial statements. Some politicians emphasized that they used financial statements but not in their decision-making process because statements are often published late, and this does not assist in prompt decision-making.

Some authors researched the perceived usefulness of financial statements and disclosed information prepared under different accounting bases in the decision-making process (Brusca, 1997; Liguori *et al.*, 2012; Kober *et al.*, 2010; Brusca and Montesinos, 2013; Nogueira *et al.*, 2013; Liguori *et al.*, 2012; Nogueira and Jorge, 2016; Hausteine *et al.*, 2021; Gomes *et al.*, 2023). In general terms, these studies present mixed results. They show that in some instances cash-based reporting is useful for decision-making, while on the other hand, there is a perception that information prepared on accrual bases is more useful.

Previous studies also show that there is a difference between the use and the perceived usefulness of financial statements (Van Helden, 2016). Liguori *et al.* (2012) researched how politicians and managers in local government appreciate budget information based on cash accounting, as well as information based on accrual accounting. Buylens (2014) researched the same items of financial information among Flemish local councillors, observing the use of that information in annual meetings. The comparison of those two studies shows that there are differences. While Italian councillors highly appreciate information prepared on a cash basis and they approve the accounting information prepared on accrual basis, in Belgium the real usage of accounting information based on cash accounting is very low while the usage of accounting information prepared on accrual accounting basis almost did not exist. Subsequently, Van Helden (2016) explained that these differences exist because the Italian study researched perceived usefulness, while the Flemish study researched real usage. Van Helden (2016) concluded that the perception of usefulness was greater than the real usage of financial statements by politicians. Moreover, Van Helden (2016) emphasized that prior studies about usage and usefulness were mostly based on accounting statements such as the balance sheet and income statement – the statements most likely to be impacted by legislation in the transition from cash to accrual accounting in the public sector.

Yamamoto (2008) researched how politicians used financial statements based on cash and accrual accounting in the process of creating policies. He found that there is limited usage of financial statements by the Japanese government, and the author concluded that although some politicians read and understand financial statements, they do not consider information prepared under accrual accounting to be more useful than information prepared on a cash accounting basis. Buylens and Christiaens (2016) confirmed these findings.

Nogueira *et al.* (2013) researched the usefulness of financial statements for internal decision-making in Portuguese municipalities, after public sector reforms were conducted and accrual accounting was implemented in that jurisdiction. They analyzed the perceptions of internal users including politicians. Their results show that financial statements in their current form and content were perceived as highly useful in the decision-making process in that jurisdiction. Paulsson (2006) researched the use of accrual accounting-based information by the Swedish Central Administration and concluded that the information prepared on accrual basis was used more by managers than by politicians. Kober *et al.* (2010) conducted a study on perceived usefulness of financial statements in the Australian public sector and showed that accounting systems based on a cash basis were not appropriate for managing the public sector in Australia, while accounting systems based on accrual accounting were perceived as the most useful by internal and external users in that setting. Most recently, Hausteine *et al.* (2021) researched the usefulness of financial statements at the local level in Finland and Germany. Both countries evaluated the usefulness of financial statements as

positive. Finally, [Gomes et al. \(2023\)](#) researched the usefulness of accounting information in the context of local government in Portugal and Spain. Their research shows that information about budget and budget execution is perceived as more useful for public management and in decision-making process, as chief financial officers are more oriented to use of information prepared on cash basis and the budgeting information. This is an important explanation of the lower use and usefulness of accounting information prepared on accrual accounting basis compared to cash basis, especially in the Spanish context. Comparing the results between Portuguese chief financial officers' use and usefulness of information prepared on different accounting basis to similar Spanish users, the Portuguese were more optimistic about the use and usefulness of information prepared under the accrual accounting basis. In conclusion, it is evident that there is mixed evidence about the usefulness of accounting information prepared on different accounting bases. There are positive results on information usefulness when it is prepared on accrual bases, according to the perceptions of politicians ([Kober et al., 2010](#); [Liguori et al., 2012](#)). Equally, however, there is evidence that the use of accounting information prepared on accrual accounting basis is low ([Buylen and Christiaens, 2016](#); [Yamamoto, 2008](#)). Furthermore, [Budding and Van Helden \(2022\)](#) conclude that although accounting information is considered potentially important to politicians, its actual use seems to lag behind its perceived usefulness. [Lapsley \(2022\)](#) also reports a negative attitude towards the use of accounting information by politicians and believes that accounting information is not perceived as useable by politicians because it is not relevant for them. Finally, [Budding and van Helden \(2022\)](#) raise the question of the relevance of information given to politicians and considers that accounting information is crucial for the supervisory function of the legislature.

Although research on the use and perceived usefulness by different categories of users does exist in the context of a number of different countries, there is little evidence from the Croatian setting. Croatia represents an interesting research setting as it is a country that is in a transitional period of adopting full accrual accounting and it is currently applying modified accrual accounting. It is a member state of the EU, and it is a country that represents the Southeast region of Europe. That region has had challenges in the implementation of public sector reforms and the related transition to accrual-based public sector accounting and reporting. In addition, there are very few studies conducted in that region on the usefulness of financial statements by public sector managers and public sector accountants, while politicians have never been researched in this empirical context. Research by [Poljašević et al. \(2021\)](#) about public managers' perception of accounting information usefulness in decision-making processes shows that public managers consider both cash and accrual-based statements very useful for making decisions. That is, the report on revenue, expenses, receipts and expenditure has been rated by public managers as the most useful and both the report on budget execution and the report on liabilities had a high average usefulness evaluation in that study.

Therefore, the aim of this study is to explore if politicians use financial statements in the decision-making process and how they perceive the usefulness of the financial statements at their disposal. We also investigate whether there are any differences between the use and the perceived usefulness of those financial statements.

In light of previous research that indicates mixed results on the use and perceived usefulness of accounting information disclosed in financial statements prepared on different accounting bases, in this study we outline three research questions:

RQ1. Do politicians use the financial statements prepared by public sector entities?

RQ2. What are the reasons for politicians using or not using financial statements?

RQ3. Is the perception of the usefulness of financial statements by politicians greater than their actual use?

Methodology

Our research is conducted by using a questionnaire prepared for the purpose of a larger project titled: “*Challenges of financial and non-financial reporting by public sector entities in the changing user needs environment*”. For the purpose of this study, selected questions regarding financial reporting and information about the personal background of respondents were used. In addition to closed-ended questions, the questionnaire contains questions based on a Likert scale from 1 to 5 so that respondents could express their perceptions on the usage of individual prescribed financial statements and could indicate the usefulness of such statements. In order to analyze the results, we used descriptive statistics.

The administration of the questionnaire was conducted by a specialized market research agency that contacted the politicians by telephone in the period from February to April 2022. Conducting the questionnaire by telephone represents a limitation of this study, and therefore, the results should be viewed with caution. It is possible that over the telephone, respondents gave more positive answers about the intensity of the use of accounting information as compared to the observation of political debates (Van Helden and Reichard, 2019). As Van Helden and Reichard (2019) concluded, due to different needs and interests, different user groups use and perceive the usefulness of accounting information differently for the purpose of this kind of research. We researched politicians that are members of Croatian public sector bodies, i.e. members of Parliament and members of county, city and municipal councils. As selected politicians in our sample have legislative power, their use and perception of usefulness differs from politicians who are at the executive level and who have the role of public managers due to their different responsibilities (Jethon and Reichard, 2022).

The database of politicians was created from publicly available sources such as the web pages of the Croatian parliament, counties and local entities as well as from data held by the Croatian Bureau of Statistics. That resulted in 7828 individuals identified as politicians who are members of representative bodies in Croatia. By random selection, 1550 politicians were contacted and 505 answers were collected, i.e. the response rate is 32.58%. Table 1 presents the personal characteristics of respondents. In our surveyed sample, the majority of politicians are male (67%). This is not unexpected giving the fact that women in Croatia are still less involved in politics. Of the surveyed respondents, 37% had finished high school, while 53% hold a bachelor's or master's degree. Sixty percent of the respondents are members of municipal councils. A total of 47% of respondents have been in their current position less than one year, while about 26% have been in their position from one to five years. The remaining respondents have been in their current position 11–15 years, or more than 15 years.

Research results and analyses

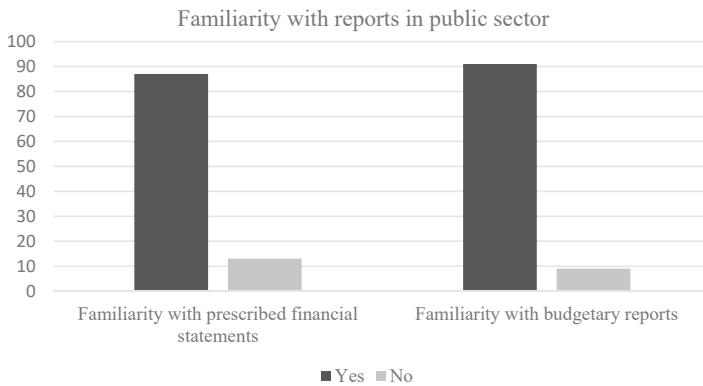
Do politicians use the financial statements prepared by public sector entities?

In order to provide the answer to our first research question, we asked the politicians if they were familiar with prescribed financial statements as well as with budgetary reports. This question was important given the fact that budgetary reports are in the domain of politicians' accountability and have been shown in previous research to be more used than the financial statements (Moretti, 2016). In addition, prior research also shows that politicians' interests are in prioritizing policy and achieving a balanced budget (Van Helden and Reichard, 2019). In this study 87% of respondents (according to Figure 1) reported that they were familiar with prescribed financial statements, while 13% of respondents were not familiar with them. In the

	Gender		Education		
	Frequency	Percent	Frequency	Percent	
Female	167	33	Primary school	5	1
Male	338	67	High school	189	37
	505	100	Bachelor's degree	84	17
			Master's degree	184	36
			Postgraduate specialist studies	12	3
			Master of science	21	4
			PhD	10	2
			505	100	
<i>Current position/function</i>			<i>In the current position/function</i>		
	Frequency	Percent		Frequency	Percent
Members of parliament	10	2	Less than 1 year	238	47
Members of county councils	49	10	1–5 years	132	26
Members of city councils	129	26	6–10 years	75	15
Members of municipal councils	308	60	11–15 years	28	6
Members of the city district council	9	2	More than 15 years	32	6
	505	100		505	100

Table 1. Personal characteristics of respondents

Source(s): Author's own work



Source(s): Author's own work

Figure 1. Familiarity with reports in public sector

case of budgetary reports, 91% of respondents answered that they were familiar with budgetary reports, while 9% of respondents were not familiar with them.

The question as to whether the politicians use financial statements was a closed-ended question. The respondents had an option to choose 1 if they never used the financial statements, 2 if they sometimes used them and 3 if they often used them. Although politicians were mostly familiar with financial statements produced by public sector entities (87%, according to Figure 1), 13% of respondents were not familiar and 25% of respondents overall responded that they never used them. These respondents were then precluded from answering further questions about the perceived usefulness of financial statements. As Table 2 shows, out of 505 politicians, 379 or 75% of respondents answered that they use

financial statements, and they, therefore, comprise the final sample for this study. From those users, 60% responded that they used them sometimes, while 40% used them often.

After the respondents provided answers on whether they often or sometimes use financial statements, they were asked to rate the prescribed financial statements that they used on a Likert scale from 1 (never use) to 5 (often use). The results are presented in Table 3. From Table 3, it is evident that politicians mostly use the statement on revenue, expenses, receipts and expenditure (Mean = 3.75), while all other prescribed financial statements are only sometimes used (Mean < 3.5).

Following the respondents' answers on which prescribed financial statements they use, we asked about the information disclosed in the financial statements that they use the most. The information ranked by the respondents as the most used is on *operating expenses*, followed by *operating revenue* (not tabulated in Table 3). Much less used is the information on total liabilities, balance of liabilities at the end of the reporting period, as well as the information on deficit/surplus of revenue and receipts, information on total assets and information on own sources. The reported use of any other disclosed information is negligible.

These results are consistent with the answers on the most used statement of revenue, expenses, receipts and expenditure. In the statement on revenue, expenses, receipts and expenditure there is a combined recognition of those items based on both accrual and cash bases. This is because revenue is recognized in the period in which it is available and it can be measured, expenses are accrued under modified accrual accounting in Croatia, while receipts and expenditure are recognized purely under cash accounting bases. The fact that a balance sheet as a part of the financial statements is used less, as well as the detailed information disclosed within the balance sheet, leads to the conclusion that politicians are mostly interested in financial performance of public sector entities as reported on a modified accrual basis and are not primarily interested in the entities' financial position. These results are also consistent with Tooley *et al.* (2010) who concluded that information disclosed in the income

Table 2.
The use of prescribed financial statements by politicians

	Use of financial statements – all respondents		Use of financial statements – respondents who used financial statements	
	Frequency	Percent	Frequency	Percent
Never	126	25		
Sometimes	228	45	Sometimes	228 60
Often	151	30	Often	151 40
Total	505	100	Total	379 100

Source(s): Author's own work

Table 3.
Usage of prescribed financial statements

	Mean	Standard deviation
Annual budget execution report	3.94	0.97
Semi-annual budget execution report	3.79	1.04
Statement on revenue, expenses, receipts and expenditure	3.75	0.95
Statement on liabilities	3.36	1.02
Statement on expenditure according to functional classification	3.30	1.10
Notes	3.28	1.10
Balance sheet	3.13	1.03
Statement on changes in the value and volume of assets and liabilities	2.98	1.08

Source(s): Author's own work

statement is rated the most useful, while information disclosed in the balance sheet ranked the lowest. Research by [Van Helden and Reichard \(2019\)](#) has further shown that understandability is a factor that influences usage and usability. Understandability takes into account the format of the information as specified in an accounting document and the channels through which it is available ([Van Helden and Reichard, 2019:489](#)). The fact that the balance sheet is focused on the value of assets and liabilities without a possibility for users to observe the liquidity of such assets and changes in the net assets can be a factor that influences the lower use of the balance sheet. The reason for the lower use of a balance sheet in this study can also be found in the fact that the Budget Act in Croatia defines the politicians' responsibilities for the adoption of budgets and the adoption of budget execution reports. Those reports do not contain information on assets and liabilities, which thus remain outside of politicians' legislated responsibility and presumably also outside of their interest.

We can also report from our results that although politicians are mostly familiar with prescribed financial statements, about a quarter of the respondents expressed that they do not use prescribed financial statements, while three-quarters of the respondents expressed that they use those statements, but only sometimes (see [Table 2](#)).

We then asked the politicians how they use budget execution reports. We found that they use budget execution reports more than all the financial statements (see [Table 3](#)). We explain these results as a consequence of politicians' responsibilities as defined in the Budget Act. The Budget Act, article 42, states that the Parliament, or the representative body of the local entity, adopts the budget and gives its consent to the proposal of the financial plan of extra-budgetary use together with budget adoption. Furthermore, according to article 89, the Ministry of Finance, i.e. the administrative body for finance in Croatia, prescribes that the budget execution is submitted to the Parliament. The same report on budget execution is also submitted by a mayor of a city (or a municipality/county) to their councils for adoption. We therefore deduct that the budget and the related reports are objects of political priorities. The politicians have to ensure that budgets and related plans and reports are executed in accordance with the law and the consequent political priorities are key for politicians' accountability in the public sector ([Van Helden and Reichard, 2019](#)). In other words, politicians' responsibilities determine the use of these reports. However, we point out here the important limitation when it comes to the first research question. The limitation stems from the possible risk of bias in the responses, i.e. there is a difference between claiming that someone uses financial statements and finding that they actually do. This risk can only be mitigated through further research and observations ([Van Helden, 2016](#)).

What are the reasons for politicians using or not using financial statements?

Previous research indicates that some of the reasons for non-use of prescribed financial statements are due to information characteristics ([Yamamoto, 2008](#); [Caruana and Farrugia, 2018](#)). To that end, this study endeavored to address, through the second research question, what the reasons are for the non-use of prescribed financial statements. The question about the reasons for non-use was posed to the respondents who answered that they never used financial statements (the 126 respondents). They needed to select 3 most common reasons for non-use. The results are presented in [Table 4](#). It is evident from that table that the main reason for the non-use of financial statements is the respondent's perception that they do not need the financial statements. The second significant reason stated by these respondents is that financial statements are not in their area of interest. The third reason stated by the respondents is that other statements are their focus and their priority and the fourth reason is that financial statements contain too many technical terms. Finally, the fifth reason mentioned by respondents is that the use of financial statements is optional for them. A small number of politicians (only 9) reported that their reason for non-use of financial statements

lies in the information characteristics of the statements, which are not helpful in their decision-making. Politicians gave some other reasons for not using the financial statements in the survey, but we present the 5 most commonly stated reasons. These findings are consistent with [Caruana and Farrugia \(2018\)](#) who concluded that the fact that financial statements might not be in the domain of accountability for politicians is the main reason for their non-use. In our study, it is also evident that politicians did not use prescribed financial statements because they characterized them as not needed. Besides understandability, research by [Van Helden and Reichard \(2019\)](#) shows that relevance is the key for the use or non-use of accounting information. Relevance, in principle, means that the type of information provided in the accounting document is to be aligned with what users need for their decision-making or for discharging their accountability. According to the Croatian Budget Law public managers in Croatia are responsible for preparing financial statements by local and regional self-governing units and presenting them to budgetary and extra-budgetary users. On the other hand, politicians have responsibility for the adoption and execution of budgets and policy related matters. However, the publication of the prepared financial statements as required by the ordinance on financial reporting in budgetary accounting does not extend to the obligation to adopt financial statements at the parliamentary level and the local and regional self-governing unit level. So, the question remains as to who those financial statements are prepared for and for what purpose. Presumably they are another means to promote accountability. Our evidence, however, clearly shows that where reporting does not have a clear legislative purpose and does not assist in discharging legislatively mandated responsibilities and accountability, it is less likely to be used by intended users.

In addition to finding the reasons for not using financial statements, we were also interested in what are the reasons for their use (see [Table 4](#)). The respondents needed to select 3 most common reasons for use. Our respondents who indicated that they use financial statements stated that making decisions on budget approval and budget spending was the primary reason. The second reason politicians use financial statements is to compare current results with those of previous periods and the third reason is to compare actual financial results with the adopted budget. Those reasons apparently affect their financial decisions. These responses confirm that politicians are by and large concerned with the budget and the budget execution because budgets are in their domain of responsibility. Financial statements are a secondary source of information for politicians in Croatia who do not hold responsibility for financial statements. These results reinforce our previous claim about the legislative purpose and the related legislated responsibilities that influence the use of the reports. Politicians gave some other reasons for using financial statements, but we presented in [Table 4](#) the 5 most common reasons provided by our respondents.

Table 4.
Ranked reasons for use and non-use of financial statements prepared by public sector entities

Reasons for non-use	Frequency	Reasons for use	Frequency
I do not need it	91	When making decisions on budget approval and budget spending	119
Financial statements are not my area of interest	25	For comparison of current results with previous periods	107
Other statements/documents are my priority	16	To compare the actual financial results with the adopted budget	99
Contain too many technical terms	15	As support when making financial decisions	86
Use of financial statements is optional	15	To determine the costs of a particular program, project, or activity	82

Source(s): Author's own work

Is the perception of the usefulness of financial statements by politicians greater than their actual use?

Previous research shows that there is a difference between the use and the perceived usefulness of financial statements (Van Helden, 2016). Our third research question addresses how politicians evaluate usefulness of each type of financial statement and whether there is a difference in use and perceived usefulness. Respondents were asked to evaluate the usefulness of each type of statement on a Likert scale from 1 (not at all useful) to 5 (completely useful).

The results are presented in the Table 5. It is evident from this table that the respondents evaluated the statement on revenue, expenses, receipts and expenditure as most useful, while all other statements are evaluated as less useful. When we compare these results with the actual use in Table 3, it is obvious that the perceived usefulness of all financial statements was rated as greater than the actual use of those statements; that is, the politicians mostly used the statement on revenue, expenses, receipts and expenditure while all other financial statements are only used sometimes. We also observe that a balance sheet is lower ranking for perceived usefulness (Mean = 4.07), and it is in the fourth place for its use. This result is not consistent with Liguori *et al.* (2012) who concluded that just 6% of respondents evaluate the balance sheet as very useful. In our case, it seems that after the statement on revenue, expenses, receipts and expenditure, the balance sheet is also perceived as useful. Interestingly, the statement on liabilities that was in the last place when we asked about its use is also considered useful. It appears to be perceived as useful, but it is not used. Respondents were also asked to rate the usefulness of the budget execution report. We find that the annual budget execution report is rated as more useful than all of financial statements. Furthermore, the perception of the usefulness of the budget execution report is greater than its actual use.

This evidence provides answers to our third research question about the perceived usefulness of financial statements and whether it is greater than the actual use. Our findings are also consistent with Van Helden's (2016) findings that there is a difference in the use and usefulness and that usefulness is generally perceived greater than the actual use.

Concluding remarks

Understanding whether and how politicians use accounting information is important to appreciate how accounting information enables the process of accountability. Comprehending politicians' use of accounting information also assists in the process of public sector reforms, especially reforms of accounting and reporting. Given that Croatia is in a transitional period of adopting full accrual accounting in the public sector while currently applying modified accrual accounting, it is important to determine whether the reports and

	Mean	Standard deviation
Annual budget execution report	4.56	0.69
Statement on revenue, expenses, receipts and expenditure	4.46	0.79
Semi-annual budget execution report	4.41	0.80
Balance sheet	4.07	1.03
Statement on liabilities	4.07	0.95
Statement on expenditure according to functional classification	4.01	1.01
Notes	3.80	1.04
Statement on changes in the value and volume of assets and liabilities	3.74	1.05

Source(s): Author's own work

Table 5.
Usefulness of
prescribed financial
statements

statements currently produced are used by intended users, such as politicians. Preparing financial statements is a costly process so insights into their use and usefulness are an important consideration.

Our survey of Croatian politicians shows that most politicians sometimes use public sector financial statements. Further, our results show that the mostly used are the statements on revenue, expenses, receipts and expenditure. This is because under modified accrual accounting statements on revenue, expenses, receipts and expenditure, as explained, have higher informational value for the intended users than other reports, such as a balance sheet or a statement of liabilities that appear to have more limited informational value. When asked about the information contained in the financial statements, our respondents pointed out that the use of operating expenses and operating revenue are important to them. Other financial statements and reports are only sometimes used. By reference to the legislative framework of the Republic of Croatia, we explained that politicians use some of the available statements and reports. This is largely due to politicians not having responsibility for approving and submitting through the legislative process certain reports, including financial statements; therefore, they do not need the legislative approval. Moreover, since politicians are responsible for managing and distributing public resources as apportioned to them on a budgetary basis, it is not surprising that their interest is focused on revenue and expenses, as well as receipts and expenditure, i.e. the cash-based information.

In researching the usefulness versus the use of financial statements, this study finds that politicians assert that all prescribed statements within the financial statements are more useful to them than their actual use reflects. However, the statement on revenue, expenses, receipts and expenditure is rated as the most useful, while the balance sheet, while also rated as useful, is rarely used. In addition, politicians seem to use budget execution reports more than all of financial statements. They also perceive that budget execution reports as the most useful of all reports. This supports our conclusion that it is the politicians' responsibility, as defined in the legislative framework by the Parliament, that determines the use and the perceived usefulness of the reports. The results of our study support the concept of accountability, especially financial accountability, where politicians are focused on what they are responsible or accountable for, – the budget and its execution, first and foremost. They consider financial statements as a secondary source of information, generally outside of their responsibility.

Previous research ([Caruana and Farrugia, 2018](#)) has pointed to the fact that financial statements are not used primarily due to the characteristics of their information. Our research extends that finding as it shows that politicians base the use of information and the reports on the legislative backing of these reports and the legislative administration of politicians' responsibilities. Our research also provides further evidence for [Budding and Van Helden's \(2022\)](#) and [Lapsley's \(2022\)](#) findings on the lag of use of information behind its perceived usefulness, as well as the explanations around accounting information relevance when provided to politicians.

Overall, the results reported in this study are insightful especially regarding the use and usefulness of financial reports in public sector as perceived by politicians and public sector managers. The findings of this study are of interest to the reporting standards setters as well as regulators when considering the actual use of the reports based on the existing and future standards and regulation.

Our study, however, is not without limitations. Our findings could be a function of the unique setting relevant to Croatian politicians and the Croatian public sector. Further comparative research with other countries might therefore provide additional insights. In addition, the survey methodology used in this study also has limitations and additional insights could be gained through interviews with selected politicians and by direct observation.

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Corresponding author

Ivana Pajković can be contacted at: ipajkovic@efzg.hr

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