

The quest for users' needs in public sector budgeting and reporting

Public financial management (PFM) encompasses a comprehensive set of diverse activities regarding budget preparation and execution, control, accounting, reporting, monitoring and evaluation (Allen *et al.*, 2004). These activities produce plenty of data for a relatively broad range of users with diverse needs. Despite an upsurge of interest in PFM research, a common critique refers to the absence of a theoretical background that serves in framing accounting and reporting principles and financial management activities in the public sector (Pallot, 1992; Mayston, 1992; Steccolini, 2016). According to Jones and Pendlebury (2000, p. 126), public sector accounting has been based on “hypothesised users and hypothesised needs”. Doubts have been raised, whether a “substantial number of users” even exists (Jones and Pendlebury, 2000, p. 138). This brings the idea of General Purpose Financial Statements *ad absurdum*.

The requirement to define users and their needs leaves both researchers and standard setters with numerous challenges regarding the identification of users, the classification of their needs and the resolution of user needs' conflicts. Despite existing analytical contributions on users and their needs (e.g. Sutcliffe, 1985; Jones, 1992; Mayston, 1992; Ma and Mathews, 1992) and the approaches contained in the conceptual frameworks issued by standard setting boards (GASB, 1987; IPSASB, 2014), there is a strong demand for further research on these issues, especially in the public sector context (Young, 2006; Cascino *et al.*, 2014; Tagesson, 2014; Oulasvirta and Bailey, 2016). The link between the users and their needs would directly lead to the accounting model required (Jones, 1992), including a specific reporting format. Another issue concerns the usefulness of information provided by PFM. A controversial debate is prevalent upon two types of uses, i.e. objectives of accounting on one side, accountability and decision usefulness on the other side (e.g. Jones, 1991, 1992; Pallot, 1992), which is currently gaining momentum in the potential European Public Sector Accounting Standards development. A growing literature is discussing accounting objectives (e.g. Broadbent and Guthrie, 2008; Nowak *et al.*, 2014; Glöckner, 2015; Mann *et al.*, 2019) and the debate is still ongoing.

This special issue aims to provide further insights into the puzzle of different user groups, their needs and use of PFM information. Seven articles have been selected: one literature review on the theme, a theory development article and five articles that provide empirical data from different national settings (Czech Republic, Finland, Malta, Portugal and USA) about the use of accounting information, primarily focussed on politicians.

To start with an overview about the status quo of research, van Helden and Reichard (2019) present an analysis of 15 years of publications on the use of accounting information in the public sector from an empirical perspective. They review 30 articles addressing users, user needs or use in connection with accounting or financial information in the public sector, so to identify the contextual factors of the use. The paper reflects the variety of user groups with different needs and interests, thereby demonstrating the specific challenges public sector accounting is facing. Van Helden and Reichard stress the need to combine variables

Two of the guest editors are project coordinators of the EU-funded DAAD project “Developing and implementing European Public Sector Accounting modules” (DiEPSAm). Ellen Hausteine and Peter Lorson would like to thank for support by the project and the EGPA Permanent Study Group XII “Public Sector Financial Management” to organise a corresponding workshop to this special issue's theme. The DiEPSAm project outputs, an academic module and a textbook on “European Public Sector Accounting” are available at: www.diepsam.uni-rostock.de (everything open access).



such as user groups, user needs, usability and intensity of use in research, and highlight tensions that are inherent in accounting information use in the public sector. The article concludes by identifying avenues for future research.

The claim that use of accounting information in the public sector is driven by the diversity of user groups and the differences in their interests and needs also requires different theoretical approaches to these groups. This idea is taken by Ouda and Klischewski (2019) in their theoretical contribution with the development of a theory of accounting information usefulness. They specifically address the relationship between accounting information producers and politicians with respect to internal accounting information provided by special-purpose financial statements. The model is based on the assumption that politicians use accounting information for instrumental and symbolic use, i.e. information that improves the efficiency of the decision making process, while legitimising and confirming their decisions. The authors draw on cognitive fit theory and social cognitive theory in order to derive propositions on accounting information usefulness as a function of a cognitive match between the accounting information producers and politicians. The concept of a theory of accounting information usefulness presents a way on how to apply cognitive psychology in public sector research.

Politicians as the representatives of citizens play a major role in the user groups of public sector accounting information. This role is also considered in this special issue with four empirical analyses of politicians as users in the focus. Thereby, three articles address the central government level and one the local government level. Hence, this special issue is also a response to a call of van Helden (2016) to study if and how politicians use accounting information and which strategies or support they seek in doing so.

Ellul and Hodges (2019) draw on new institutional theory to examine the potential implementation of performance-based budgeting (PBB) within the Maltese central government with respect to politicians and civil servants as user groups. They argue that PBB is an alternative to the traditional budgeting formats and procedures and therefore explore the pressures for and against such reform in a country that uses a cash basis of financial reporting at central government level. The analysis is informed by documentary sources and semi-structured interviews of politicians and senior civil servants. The use of the performance information is for enhancing effective economic decision-making and to promote accountability. The contribution shows that the traditional line item budgeting system is an institution itself as it is deeply embedded in existing practices. Only with the support of powerful actors, i.e. persons in high positions of power such as the Prime Minister or Finance Minister, can changes in such practices be realised. Such endeavour can still be held down by institutional pressures and macro-level forces such as the European Union's surveillance and regulation regarding the reduction of fiscal deficit. Still, the potential of PBB not only regarding internal decision-making, but also external accountability is seen as very high by both user groups.

With respect to the use of accounting information, expert and non-expert users have to be distinguished. Previous research showed that in particular politicians rely on information brokers for them to transform and prepare accounting information (Heald, 2003, 2012; Justice and Dülger, 2009; Jorge *et al.*, 2016). Taking this research as a starting point two papers particularly look at the use of accounting information by members of the parliament (MPs) and the role of information brokers.

Sedmihradská and Kučera (2019) analyse state budget information use and investigate information gathering approaches of politicians. In an observatory study, the first-time encounter of the newly elected MPs, i.e. non-expert users, and their assistants with the 2018 Czech state budget is studied. A Fiscal Information Ecosystem Model is proposed, which contains elements of communication theory, the concept of information brokering and a stakeholder participation model, to analyse the exchange and use of fiscal information depending on the roles of actors involved in the budget process. The study shows that MPs use

budgetary information selectively, e.g. to assess compliance of the proposed budget with their political agenda, to prepare the budget amendments and to make informed decisions when voting on budget amendments proposed by other parties. The use of information is supported by two types of information brokers, namely, analytical and technical information brokers.

The article of Jorge *et al.* (2019) also examines what type of budgetary and financial information politicians use, their purposes and the role of information brokers. Open interviews were conducted with MPs and technical advisors in Portugal. The study indicates that the use of accounting information depends on the way it is presented, rather than on the expertise of politicians. As such, aggregated information and information prepared by information brokers is preferred, and used for the assessment of government measures and to make decisions about budgetary and other public policies. Thereby, the study distinguishes information brokers into intermediaries and technical advisors, whereas the latter often act as “second line information brokers” using sources of other intermediaries. In contrast, non-aggregated financial information is only used for very specific questions that require a more thorough analysis.

In the fourth empirical study addressing the use of accounting information, Sinervo and Haapala (2019) address Finnish local politicians’ use of financial information depending on their individual characteristics. The study analyses how local politicians’ speeches reflect the use of financial information, and the financial concepts to which local politicians refer. Politicians from five different Finnish municipalities were interviewed. The findings of the study show that the use of financial information depends not only on financial, but also on political experience.

Smith and Chen (2019) turn to a different user group, and investigate school board directors as these are in charge for school oversight, but are seldom experienced in management, financial oversight or governance. The paper seeks to analyse the information needs school board directors have for governing, and the specific role that financial reporting can play in providing such useful information. The data were collected by a survey questionnaire completed by school board directors in the Washington state. The study concludes that information mostly needed corresponds with the strategic role of New Public Management. However, the availability of the information ranked useful by directors is limited, so that there seems to be an information gap between directors’ information needs and school district reporting, which can then negatively affect decision-making.

To give a summary of the lessons learned in this special issue, the following points can be highlighted:

- (1) The diversity in user groups: their differences in needs might require different theoretical approaches to study public sector accounting information use.
- (2) Theoretical underpinnings of other disciplines such as communication studies or psychology may help to better understand the role of accounting information use and the relationships between the different actors.
- (3) Predominantly, the decision usefulness objective stands in the focus of the articles included in the special issue. However, as the study of Ellul and Hodges (2019) shows, also the accountability function of accounting information is valued high by politicians.
- (4) The role of information brokers cannot be underestimated and requires further investigation. Thereby, it seems worthwhile to distinguish different types of information brokers and how these even rely on a secondary use of accounting information.
- (5) The empirical studies represent national settings only, so that comparative studies are needed in the future that highlight commonalities of use of accounting information and reasons for differences in use.

- (6) This special issue did not aim to show whether a “substantial number of users” exists. Still, the papers presented here add further insights on how accounting information is used, and the important role it plays for informing decision making, in particular for politicians.

Ellen Haustein

University of Rostock, Rostock, Germany

Peter Christoph Lorson

University of Rostock, Rostock, Germany

Eugenio Caperchione

*Università degli Studi di Modena e Reggio Emilia Facoltà di Economia Marco Biagi,
Modena, Italy, and*

Isabel Brusca

Department of Accounting and Finance, University of Zaragoza, Zaragoza, Spain

References

- Allen, R., Schiavo-Campo, S. and Garrity, T.C. (2004), *Assessing and Reforming Public Financial Management: A New Approach*, World Bank, Washington, DC.
- Broadbent, J. and Guthrie, J. (2008), “Public sector to public services: 20 years of ‘contextual’ accounting research”, *Accounting, Auditing and Accountability Journal*, Vol. 21 No. 2, pp. 129-169.
- Cascino, S., Clatworthy, M.A., Osma, B.G., Gassen, J., Imam, S. and Jeanjean, T. (2014), “Who uses financial reports and for what purpose? Evidence from capital providers”, *Accounting in Europe*, Vol. 11 No. 2, pp. 185-209.
- Ellul, L. and Hodges, R. (2019), “Reforming the government budgeting system in Malta: pressures promoting or hindering the reform”, *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 596-616.
- GASB (1987), *Concepts Statement No. 1 Objectives of Financial Reporting*, GASB, Norwalk, CT.
- Glöckner, A. (2015), “Towards a common conceptual framework for public sector accounting in Europe? – a comparative study of the IPSAS framework and the conceptual approach applied by the German federal state of Hessen”, *International Journal on Governmental Financial Management*, Vol. 15 No. 2, pp. 12-45.
- Heald, D. (2003), “Fiscal transparency: concepts, measurement and UK practice”, *Public Administration*, Vol. 81 No. 4, pp. 723-759.
- Heald, D. (2012), “Why is transparency about public expenditure so elusive?”, *International Review of Administrative Sciences*, Vol. 78 No. 1, pp. 30-49.
- IPSASB (2014), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, IPSASB, New York, NY.
- Jones, R. (1991), “Comparative governmental accounting research”, *Staatswissenschaften und Staatspraxis*, Vol. 4 No. 2, pp. 548-552.
- Jones, R. (1992), “The development of conceptual frameworks of accounting for the public sector”, *Financial Accountability and Management*, Vol. 8 No. 4, pp. 49-64.
- Jones, R. and Pendlebury, M. (2000), *Public Sector Accounting*, 5th ed., Prentice Hall, New York, NY.
- Jorge, S., de Jesus, M.A. and Nogueira, S. (2016), “Information brokers and the use of budgetary and financial information by politicians: the case of Portugal”, *Public Money and Management*, Vol. 36 No. 7, pp. 515-520.
- Jorge, S., Nogueira, S. and Jesus, M.A. (2019), “The use of budgetary and financial information by politicians in parliament: a case study”, *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 518-536.

- Justice, J.B. and Dülger, C. (2009), "Fiscal transparency and authentic citizen participation in public budgeting: the role of third-party intermediation", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 21 No. 2, pp. 254-288.
- Ma, R. and Mathews, R. (1992), "ED 55 Financial reporting by government departments: a dissenting view", in Australian Accounting Research Foundation (Ed.), *Submissions to Exposure Draft ED 55*, AARF, Caulfield.
- Mann, B., Lorson, P., Oulasvirta, L. and Haustein, E. (2019), "The quest for a primary EPSAS purpose – insights from literature and conceptual frameworks", *Accounting in Europe*, Vol. 16 No. 2, pp. 195-218.
- Mayston, D. (1992), "Capital accounting, user needs and the foundations of a conceptual framework for public sector financial reporting", *Financial Accountability & Management*, Vol. 8 No. 4, pp. 227-248.
- Nowak, K., Keilmann, U., Banspach, D., Eckes, M., Glöckner, A. and Jell, S. (2014), "Einheitliche europäische öffentliche Rechnungslegungsstandards (EPSAS) – Meilensteine und Anforderungen an die Entwicklung von EPSAS", in Hessischer Rechnungshof (Ed.), *Entwicklung der öffentlichen Rechnungslegung in Europa – European Public Sector Accounting Standards (EPSAS)*, Kommunal- und Schulverlag, Wiesbaden, pp. 105-160.
- Ouda, H. and Klischewski, R. (2019), "Accounting and politicians: a theory of accounting information usefulness", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 496-517.
- Oulasvirta, L. and Bailey, S. (2016), "Evolution of EU public sector financial accounting standardisation: critical events that opened the window for attempted policy change", *Journal of European Integration*, Vol. 38 No. 6, pp. 653-669.
- Pallot, J. (1992), "Elements of a theoretical framework for public sector accounting", *Accounting, Auditing and Accountability Journal*, Vol. 5 No. 1, pp. 38-59.
- Sedmíhradská, L. and Kučera, J. (2019), "Utilization of the budget documentation in the Czech parliamentary budget debate", *Journal of Public Budgeting, Accounting and Financial Management*.
- Sinervo, L.-M. and Haapala, P. (2019), "Presence of financial information in local politicians' speech", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 537-556.
- Smith, S. and Chen, H. (2019), "School board directors' information needs and financial reporting's role", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 575-595.
- Steccolini, I. (2016), "Public sector accounting: from 'old' new public management to a paradigmatic gap: where to from here", presentation held at the APIRA Conference, RMIT, 15 July, Melbourne, available at: <https://accountingandaccountabilityirspm.files.wordpress.com/2016/07/download-presentation.pdf> (accessed 29 August 2019).
- Sutcliffe, P. (1985), "Financial reporting in the public sector – a framework for analysis and identification of issues", *Accounting Theory Monograph 5*, Australian Accounting Research Foundation, Caulfield.
- Tagesson, T. (2014), "The conditions for and the users of public sector accounting", in Budding, T., Grossi, G. and Tagesson, T. (Eds), *Public Sector Accounting*, Routledge, London.
- van Helden, J. (2016), "A literature review and a challenging research agenda on politicians' use of accounting information", *Public Money and Management*, Vol. 36 No. 7, pp. 531-538.
- van Helden, J. and Reichard, C. (2019), "Making sense of the users of public sector accounting information and their needs", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 31 No. 4, pp. 478-495.
- Young, J.J. (2006), "Making up users", *Accounting, Organizations and Society*, Vol. 31 No. 6, pp. 579-600.

Further reading

- Chow, D., Day, R., Baskerville, R., Pollanen, R. and Aggestam, C. (2015), *Consolidated Government Accounts: How are they Used?*, Association of Chartered Certified Accountants, London.
- Jones, R. and Pendlebury, M. (2010), *Public Sector Accounting*, 6th ed., Prentice Hall, New York, NY.