IMPROVING GOVERNMENT FINANCIAL REPORTING IN ORDER TO INCREASE THE TRANSPARENCY AND EFFICIENCY OF PUBLIC SERVICE DELIVERY

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Abstract

The public sector, respectively general government sector, presents a significant part of the national economy. Consumption in the public sector primarily depends on its size and the effectiveness of management. Irrational resource management has a number of negative implications for the country as a whole; increasing in public expenditure leads to an increase in the fiscal burden of population and economy. The public sector is required to achieve certain objectives with lower costs. Traditionally performance measurement moves to the efficient and effective delivery of public services.

An appropriate accounting system is required to be designed to provide overall information about all aspects of government activity in order to make political, economic and social decisions and evaluation responsibilities of public managers. These objectives can be achieved only by accepting the full accrual basis of accounting.

The adoption of the accrual basis, incorporating the budget into the accounting system and harmonization of accounting and statistical bases are the main features of new, improved government accounting system. This system provides an information basis for the presentation of such financial statements which include complete information about the reporting entity in a manner that meets the objectives of financial reporting and enables decision-making and evaluation responsibilities.

Since the goal of government entities is not to make profit, but to provide services to citizens in order to achieve these objectives, it is necessary to measure and report about success of providing established services beside financial, for the evaluation of the impact of current decisions on future generations, today, presentation of report on fiscal sustainability is required.

New Public Management and accrual accounting base are the best way to improve public sector management and raise the efficiency and transparency, since the decisions of public managers are based in most cases on the reports that are the product of accounting.

Key words: *government accounting system, public sector, financial reporting, the cash and accrual basis of accounting, statistical bases of reporting, budget*

1. INTRODUCTION

In all countries, the public sector comprises a significant part of the overall national economy. The public sector, respectively the general government sector as its dominant sector, is strongly influenced by the political power, the level of development and a number of specific features of each country. Under the conditions of constant growth of public spending and limited resources, there is the imperative of efficiency and rationality of public spending. In many countries, especially developing countries, public sector reforms are underway. These reforms include the introduction of essential economic laws and the rules of good business in the area in which the market functions cannot be reflected. The tasks of the new public management are to maximize the effects of limited resources, that is, to achieve these objectives with minimal costs and allow future fiscal relief of population.

As the information is the most important resource in the management process, construction of an appropriate information system is assumption performance management. Therefore, to the government accounting as information basis of management should be devoted special attention in scientific communities around the world. Renowned professional associations continuously explore and shape

certain accounting standards related to the public sector at the international level. These standards provide a technical framework for designing government accounting systems in countries, which is a prerequisite for international transparency and comparability of national economies.

From neutral data processing system, the government accounting should be developed as management information system that will support management. Good managing of the public sector is essential for economic stability and social cohesion, and provides economic growth in general. At the same time the financial statements as a product of the accounting system should be designed to meet the objectives of financial reporting.

As profit is not the aim of government entities, but improving the welfare of citizens by providing certain products and services, the government financial statements should provide a range of information in addition to information about the financial position and financial performance. As public entities operate under strict budgetary constraints, the financial statements should provide information on whether resources are acquired and used in accordance with the legally adopted budget. The importance of a budget lies in the fact that this document shows the government's financial plan and it is the instrument of financial management and control.

Furthermore, the government accounting system should be the basis for statistical financial reporting for analysis and assessment of fiscal policy, performance of the general government sector and the public sector as a whole. Basic indicators derived from statistical reporting systems are surplus/deficit and public debt as the most commonly used performance measure of country's fiscal policy.

Decisions made by public management, both at the state level and at the level of municipalities, cities and even individual budget users have far-reaching consequences whose effects cannot be seen from the annual financial statements. When asked, for example, who bears the burden of current debt and whether the public will have the same quality services today and for several years, it can be answered only by presenting the report to be used for the assessment of financial stability and sustainability. Does the reporting entity provide the services at the lowest cost, or whether it operates efficiently, effectively and economically, requires presentation of non-financial information, which in addition to financial, makes the overall image of the reporting entity.

In line with the defined information requirements, it can be seen that the government accounting system should be designed to provide comprehensive information to present financial position and performance of government entities, monitoring budget implementation, as well as fiscal indicators through statistical reports. On the other hand, the reporting system, besides financial, needs to provide prospective and non-financial information and information about the quality of services provided by the government, the achievement of each project or function, the cost of the programs, and be support for decision-making to new public management.

2. DEFINING AND CREATING THE GOVERNMENT ACCOUNTING SYSTEM

Government entities provide various goods and services, from national defense, health, education to fire and police services. Some of these services, such as education, provides also private sector while others, such as national defense, are exclusively within the jurisdiction of the government. While the aim of private sector is production and sale of goods in order to make a profit, governmental activities include the provision of goods and services to citizens based on their needs, regardless of their ability to pay. Goods and services which should be provided and the level of services which should be reached, are determined by the people through their elected representatives or through authorization from higher levels of government.

Performing government activities requires significant amount of resources. Spending in the public sector primarily depends on its size as well as the efficiency of governance. In contrast to the private sector, there is no single criterion for evaluating the success of the implementation of the basic functions of a manager in the public sector. Since the main objective of the public sector is to meet the public needs of the population, management can be assessed by the degree of satisfaction of the population as measured by the volume and quality of services provided in relation to the resources

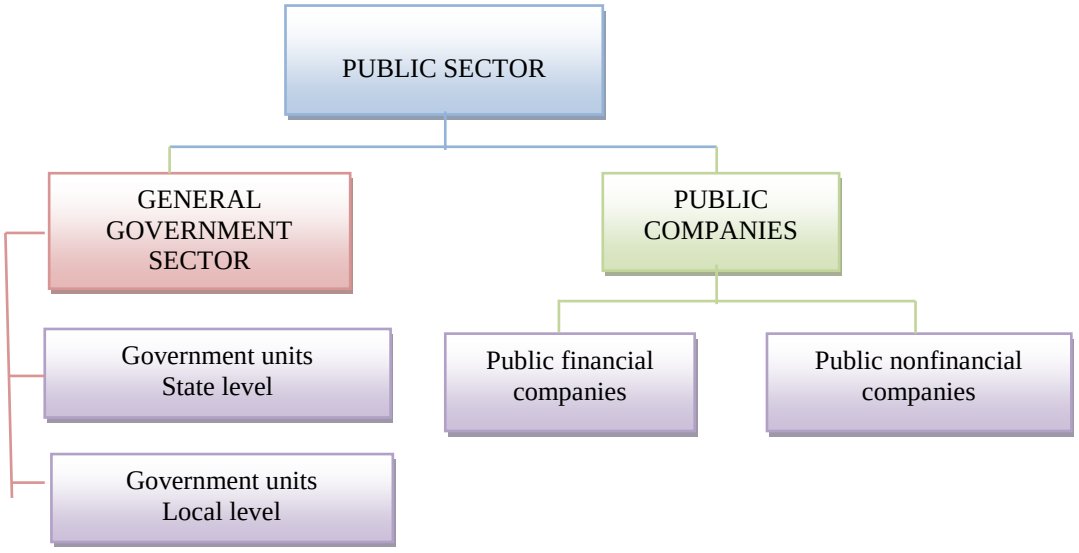
expended. Achieving the transparency and measurement of inputs and outputs caused the formation of the government accounting system that will provide information needed to assess the effectiveness of public sector governing.

Accounting is an information system for the evaluation, processing and transfer of information used for decision making. This system is the broadest and most accurate database for the presentation of financial and other economic information. The purpose of accounting is to provide information to meet the information and management needs of a wide and heterogeneous range of users.

According to the character of the reporting entity where it applies, government accounting and accounting for profit entities vary. These two accounting systems have a number of similarities but also significant differences. The similarities relate to the conduct of the same books and presentation of the same financial statements, and the differences arise from the specificity of entities. Government entities are characterized by the following: absence of profit motive, there are legal requirements which include restrictions on obtaining and spending revenues; weakness in meeting the revenues and expenses, revenues are often obtained from persons other than those to whom services are provided; emphasis on accountability or management of resources entrusted to public services, use of funding accounting, monitoring planned values by funds; using a modified rather than full accrual base in certain funds and the like (Delaney 1994).

The system of national accounting as a separate and specific system includes general government sector and all of its non-market institutional units as shown in Figure 1. Government accounting is not applied by public and quasi- public companies. It is noted in International public sector accounting standards (IPSAS) that these standards are "applicable to all public sector entities, besides public companies." Public companies[1] are among the so-called "government entrepreneur subjects" and for these subject are used International financial reporting standards (IFRSs).

Figure 1. The public sector and the general government sector



In contrast to the private sector, which applies the accrual basis of accounting, government accounting system can be based on cash, accrual or a modified basis of accounting from country to country. Basis of accounting refers to the accounting principles which determine when transactions or business events

[1] The basic characteristics of public companies are right to conclude contracts in its own name, financial and corporate authority to carry out entrepreneurial activities, conducting market activities on market principles with the aim of making a profit, not financed from the budget and controlled by the government unit. IPSASB Handbook International standards of public accounting pronouncements: IPSAS 1 - Presentation of Financial Statements, IFAC, paragraph 7, Volume I, 2013th , p. 30.

should be recognized for financial reporting purposes. The main factor affecting the choice of accounting basics that will apply in government entities and the public sector is adopted concept of accountability. Whether the financial statements include the assets, liabilities, revenues and expenses, will depend on whether the government and its entities are held accountable for all the resources under their control.

Basis of accounting, therefore, determines the elements of financial statements, i.e., what is measured and shown in the financial statements of a period-the total economic resources, the overall financial resources, only current financial resources or cash flow and cash balance. Basis of accounting determines the reporting period in which the resulting business events will be presented, and thereby the quantitative and qualitative content of the financial statements for the period.

Which accounting basis will be adopted in one country depends on the costs and benefits in terms of developing and maintaining systems of financial management information. Costs increase if there is a transition from cash to full accrual basis and require these costs to be proportional to the quality of the information needed.

2.1. THE CASH BASIS OF ACCOUNTING

The cash basis of accounting, in accordance with its name, measures cash flow. At the heart of this concept is the money that substantially covers - cash, demand deposits and cash equivalents. By this approach transactions and events are recognized only when the payment is made by cash or in cash. The financial statements prepared in accordance to this basis of accounting provide information to users about cash flows during the period and the cash balance at the reporting date. Cash flows are inflows and outflows. Receipts under this concept are revenues that are measurable and available in a given reporting period, while outflows are expenses paid.

The financial statements show the sources, allocation and use of cash. From these we can obtain information about the amount of cash needed to fund activities, the flow of cash to the activities performed and the cash balance. The main characteristics of cash basis of accounting are the simplicity of its implementation and the possibility of comparison with monetary data. Presentation of revenues and expenses on a cash basis has the advantage of focusing attention to the government financial constraints. This basis of accounting is still the most widely used in government accounting systems, particularly the budgetary accounting by tracking the achievement of the planned budget, it is a good information base for planning the budget of next year and to monitor management responsibilities for funding. For the understanding of the financial statements prepared by applying this basic low accounting knowledge of most users are needed.

The disadvantages of this basis of accounting are larger. The main drawback is monitoring only cash. It is disabled to evaluate the performance of management in governing assets. There is a lack of information about commitments that will have an impact on the next period if cash base of accounting is used.

Insufficient information is reflected in the fact that the public sector has a large amount of different assets and financial statement prepared under this basis does public management responsible only for cash resources. This lack of attempts to overcome with inclusion of certain information in the notes as well as commitments from the previous period, outstanding invoices, advances, accrued debt on an accrual basis, and the like .

Therefore, in countries that use cash basis of accounting is common that government accounting has two approaches:

- Budgetary accounting to monitor budget implementation and
- Cash base of accounting which recognizes transactions at the time of payment or cash withdrawal.

2.2. ACCRUAL BASIS OF ACCOUNTING

Data on cash provided by cash basis are relevant only for certain decisions, but they are insufficient for evaluation of the efficiency of the allocation and governing scarce resources entrusted to

government and its entities to achieve their objectives. If the public sector is responsible for the resources under their control, the financial statements should provide sufficient information for the consideration of performance management controlled assets. For these reasons, many countries recognized the need for a gradual abandonment of the cash basis of accounting and closing to accrual basis of accounting. A system that is fully based on the accrual basis of accounting recognizes transactions and events when incurred, regardless of when the payment or receipts to be made. In the corporate sector, the application of this concept with the going concern is considered to be the basic assumption that stands out in the conceptual framework for the preparation and presentation of financial statements according to IFRS. "To achieve their objectives, financial statements are prepared on the accrual basis of accounting. On this basis, the effects of transactions and other events are recognized when they occur (and not when it is received or payment of money or its equivalent), and are recorded in the accounting records and included in the financial statements of the periods to which they relate. The financial statements have been prepared on the accrual basis of accounting principles inform users not only of past events, which include receipt and payment of cash, but also on the obligations of the money to be paid in the future and the property for which the money will be received in the future. Hence, they provide the type of information about past transactions and other events that require users in making economic decisions (The conceptual framework for financial reporting, IFAC 2012)".

Accrual basis of accounting provides full coverage of all the elements of financial statements that provide a comprehensive picture of the financial performance and information about the financial condition of the reporting entity. Starting from the assumption that public entities should be responsible for all the resources that control as well as changes resulting from the activities of the period, this measurement focus are economic resources i.e. assets, liabilities, revenues, expenses and net assets.

Revenue is recognized in the reporting period when they are incurred regardless of whether they are collected and expenses in the period they are incurred for the purpose of generating revenues. In this manner comes to matching revenues and related expenses, and users have information on expenses for all services rendered, how are expenses covered by revenues in the period, sources of revenues, etc. The most sophisticated applications of this basis in the government accounting are registration of the entire assets and a proper system of measurement. This basis requires capitalization of expenditures related to the purchase of long term assets and depreciation of these assets by spending periods in proportion to its potential contained in the amount of expenses. Due to the complexity of the issue as well as the specifics of government assets, a certain period of time is required for the recognition and measurement of the whole government assets in countries which are moving from cash to accrual basis. The introduction of accrual basis of accounting is complex and time consuming process. The implementation of this base entails the existence of certain assumptions. It is recommended by international professional institutions that introduction of accrual basis may be considered only when a country has a good and strong accounting on a cash basis. Accrual accounting requires the involvement and work of a large number of well-trained accountants, both in government and administrative bodies, and beyond. Financial statements prepared under this basis will provide better information and transparency of government operations if the executives who make important decisions and the public are well informed about the nature of the information provided and their implications in financial terms.

Modern international trends in government accounting transformation encourage the implementation of accrual accounting in the public sector. In this sense International Federation of Accountants Committee launched the project of adoption and promotion of international accounting standards for the public sector. These standards represent international best practice of reporting in public sector entities. In many jurisdictions, the application requirements of the Standards will increase the accountability and transparency of financial statements prepared by the government and its entities. During this period public sector entities follow various practices of accounting and auditing, and in many countries there are no authoritative standards for the public sector. Adoption of IPSAS will improve the quality and comparability of financial information of entities from the public sector around the world.

IPSAS[2] are based on IFRSs[3] which are issued by the IASB[4]. IPSASB[5] attempts to preserve the accounting treatment and original text IFRSs whenever possible, unless there are significant discrepancies in connection with the public sector. In its future work the IPSASB seeks to develop IPSAS to deal with issues that are not addressed in existing standards and related to the specifics of public sector entities.

Since they evolved from standards that are intended to profit-oriented entities, standards for the public sector are directly developed from the conceptual framework for the preparation and presentation of financial statements for profit-oriented entities. Taking into account the specifics of reporting in the public sector, development of a conceptual framework for general purpose financial statements of public sector entities is in progress. This framework should establish and clearly define the concepts to be applied in the development of standards and other documents to determine what information should be included in the general purpose financial statements.

2.3. HARMONIZATION OF ACCOUNTING ADN STATISTICAL BASES OF REPORTING

Shaping the government accounting system as a unique information base is under the influence of the international financial statistics system. Therefore, the government accounting information system of each country, which defines the accounting rules - principles of valuation, time of recording, grouping the aggregates, etc., must be compatible and congruent with the essential requirements of statistical system.

The purpose of reporting according to statistical basis of accounting is to provide information for aggregate macroeconomic analysis and modeling. This system produces information primarily necessary for decision-making, including economic analysis and comparability across countries. In the public sector, Government Finance Statistics (GFS 2001) issued by the International Monetary Fund, is the basis for the creation of specialized macroeconomic statistical system to support fiscal analysis. This system is in accordance with the System of National Accounts (SNA) which was last updated in 2008 and European system of accounts (ESA 95). Reporting on a statistical basis of accounting is therefore very important for the public sector. Creating accounting and reporting system in accordance with international standards is base for calculating the basic indicators of the efficiency of the government in a manner that allows comparability with other countries. Thus, the accounting system is designed to allow expression of the indicators used to measure the efficiency and the development of a country is particularly important for countries in transition. Government deficit and debt are key performance indicators which present government of a country in the European Union. Under the provisions of the Maastricht Treaty and the Stability Pact for stability and growth, countries which are members of the European Union should continuously report on these indicators and maintain them at a certain level (the deficit to 3 % of GDP). To make these data comparable across countries, it was necessary to establish a uniform methodology for their calculation. Published regulations of the European Commission in defining the debt and deficit are based to statistical systems, respectively to European System of Accounts (ESA 95).

Proper presentation of the debt and the budget deficit is possible only by application of accrual accounting basis and financial reporting in accordance with IPSAS and standards of statistics.

Therefore, standardization of accounting at the international level is carried out in accordance with the requirements of government finance statistics as accounting data were unique basis for internal management needs of each country, and for international reporting.

[2] Internatinal public sector accountingstandards
[3] International financial reposting standards
[4] International accounting standards board
[5] International public sector accounting standards board

3. EUROPEAN ACCOUNTING STANDARDS FOR THE PUBLIC SECTOR

Fiscal transparency is defined as a clear, reliable, timely and relevant public fiscal reporting and it is a key element of effective fiscal management. Fiscal transparency ensures that the government's economic decisions properly presented through the current fiscal position, the costs and benefits of each policy change, and the potential fiscal risks. Market and citizens need relevant information in order to make certain decisions and evaluate the performance of the government.

Past public financial crisis in Europe led to the need for public sector reform and coordinated budgeting and accounting systems in the European Union (EU). At a time when EU member states are guarantors of other member states for their public debt, non-transparent and highly heterogeneous (on cash basis) accounting systems used by many member states are no longer suitable. All these points lead to the need for harmonization of accounting standards for the public sector to increase transparency and comparability, and be on better governance in the public sector. Many countries still use the cash basis for reporting. Monitoring only the inflow and outflow of money, or just monitoring the budget implementation, without full disclosure of assets and liabilities certainly does not contribute to good governance. In order to make effective decisions, public management shall possess relevant information, which is not the case with the use of cash basis.

In order to prevent future crises, financial management of public entities must be significantly improved. Better management of public finances requires an accounting system that provides comprehensive information on the financial situation of the public entity which is based on the accrual basis. In this regard it needs to establish unique accounting standards instead of the current system where each member has his own national standards that differ significantly. The adoption of accrual accounting in government entities has a number of benefits such as improving efficiency and effectiveness, greater transparency and accountability, comparability of financial statements, as well as the efficiency and effectiveness of public audit.

In the European Union, the national accounting standards of fifteen EU member states are associated with IPSAS. Of these, nine national standards are based on or are in accordance with IPSAS, five were adjusted in some way to IPSAS while one uses these standards for certain levels of the government sector (European Commission Report 2013). However, no state fully implemented these standards. The accounting system of the European Commission and other EU institutions, as well as of several international organizations, is based on IPSAS. While there is agreement on the need for the introduction of accrual accounting basis, it still lacks a harmonized approach. The impact of the economic and financial crisis highlighted the need to strengthen economic governance structure for the euro area and the EU as a whole. On these findings, the Commission responded to 29 September 2010 adopting a package of legislative proposals. These proposals are aimed at improved monitoring of fiscal policies, macroeconomic policies and the introduction of structural reforms to eliminate the deficiencies that exist in the current legislation.

At the level of the European Union there is currently discussing a system that can contribute to achieving the above benefits with the development of European accounting standards for the public sector (EPSAS). A suitable starting point for the development of EPSAS is the IPSAS. In other words, the question is whether and to what extent the IPSAS is suitable as EPSAS, and how they can be transformed into EPSAS.

Taking into account the views of member state authorities and a public consultation, the general conclusion is twofold. On the one hand, it is clear that the IPSAS cannot easily be implemented in member states of the EU as it stands now. On the other hand, IPSAS standards are indisputable reference for potential EU harmonized accounting standards. The following deficiencies are awarded to IPSAS (European Commission Report 2013):

- Currently, the IPSAS standards do not describe sufficiently precisely the accounting practice to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonization in practice;

- At its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, and does not take sufficient account of the specific needs, characteristics and interests of public-sector reporting. A major issue is the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU;
- At present, IPSAS can also be regarded as insufficiently stable, since it is expected that some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework, expected in 2014; and
- At present, the governance of IPSAS suffers from insufficient participation from EU public-sector accounting authorities. During 2012, the governance framework of IPSAS was being reviewed to address issues of concern to stakeholders. Any reform should ensure that the independence of the standard-setting process is strengthened, while public-sector-specific needs are effectively addressed. In addition, the IPSAS Board currently seems to have insufficient resources to ensure that it can meet with the necessary speed and flexibility the demand for new standards and guidance on emerging issues in the evolving fiscal climate, particularly in the wake of the crisis.

The first step in developing EPSAS will be establishing a conceptual framework. EPSAS may initially be based on the adoption of a number of key principles of IPSAS. It would be important not to create unnecessary differences between EPSAS and IPSAS, and between EPSAS and IFRS. EPSAS should be developed in order to reduce the differences with the ESA.

4. FINANCIAL REPORTING IN THE PUBLIC SECTOR

The financial statements, as a product of governmental accounting, should provide information to users for who these reports are prepared. However, to determine the form and content of financial statements the objective of reporting must be clearly defined. All the tasks of financial accounting can be summarized in two established goals:

- Providing reliable information for economic, social and political decision-making, and
- Providing information for the assessment of accountability of public management.

These two objectives of financial reporting countries are considered targets from which derive all other goals. Financial accounting, reporting models, standards and principles must be consistent with established objectives of financial reporting. It is necessary to determine which accounting and reporting models contribute most to the set targets.

The financial statements prepared under the cash basis provide information about inflows and outflows. These data are relevant only for certain decisions, but they are insufficient for evaluation of the efficiency of the allocation and management of scarce resources entrusted to government and its entities to achieve their objectives. If the public sector is responsible for the resources under their control, the financial statements should provide sufficient information for the assessment of assets management. Users of government financial statements require a range of detailed information as well as information on resources controlled by an entity, the costs of their activities, and other information useful in evaluating the financial position and changes in position, and the information necessary to determine whether an entity is cost-effective and efficient.

For these reasons, some countries recognized the need for a gradual abandonment of the cash basis of accounting and closing accrual basis of accounting. Accrual basis of accounting provides full coverage of all elements of the financial statements resulting in a comprehensive presentation of the financial position and financial performance of the reporting entity. In this way, government entities are held responsible for all of the resources that control and the changes that are the result of activities in a given period. To provide useful information elements in financial statements must be recognized, assessed and disclosed.

Just because the goals of public sector entities differ from the objectives of profit- oriented entities and the reports that meet the objectives of financial reporting in the public sector are more comprehensive. Like profit-oriented entities and public sector entities also present statements of financial position (balance sheet), statement of financial performance, statement of changes in net equity, cash flow statement and notes which include significant accounting policies and other explanatory. However, these reports do not provide all the information necessary for the evaluation and management responsibilities.

As previously stated, public sector entities engage their activities under strict budgetary constraints and presentation of reports on budget implementation as separate reports is required.

Reports that contain only financial information are not sufficient in assessing whether the public sector entities achieve determined aims. Presentation of financial and non-financial information about the activities relating to the provision of services is necessary to create a complete picture of the reporting entity.

In accordance with the foregoing, financial statements of government entities should contain:

- General purpose financial statements,
- A report on budget implementation, and
- Non-financial and prospective information, which may include a report on the permanent way services and achieved objectives and the analysis of the impact of current decisions on the future performance of the reporting entity.

4.1. GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements are intended for meeting the information needs of external users who are not in a position to demand reports tailored to their specific information needs. Users of these reports are taxpayers, legislators, creditors, suppliers, the public, employees and others. The specific objective of this report in the public sector is an information base for decision-making. Regardless that these reports show the effects of past events, these statements can be used for forecasting, and prediction, providing useful information for planning assets necessary to continue operations, the revenues that will be earned by continuing operations, and associated risks and uncertainty.

The presentation of financial statements made using the accrual basis is regulated by IPSAS - 1 Presentation of financial statements. The aim of the standard is to define the basis for the presentation of general purpose financial statements, in order to ensure the comparability of the financial statements of previous periods and with the financial statements of other entities. A complete set of financial statements comprise:

- A statement of financial position:
- A statement of financial performance;
- A statement of changes in net assets / equity;
- A cash flow statement;
- A comparison of budget and actual amounts;
- Notes.

Accounting elements that reflect the financial effects of transactions and other events are the contents of the financial statements. These elements constitute the starting point for the recognition, classification and collection of economic data and activities in a way that provides users with information to meet the objectives of financial reporting and contributing to the qualitative characteristics of financial reporting (The conceptual framework for general purpose financial reporting by public sector entities 2013). The elements are presented in the statement of financial position are assets, liabilities and equity. The elements in the statement of financial performance are revenues and expenses.

Below it will be presented the most important accounting elements that are presented in the financial statements which are prepared on accrual accounting base. By modification of the full accrual basis, these elements would not be recognized and presented information will be less reliable and will certainly lead to lower quality of public management decisions.

4.1.1. REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

The main source of government revenues are taxes which are legally established involuntary transfers between individuals or companies and the government. Proper inclusion of these revenues directly affects the reported result of the reporting entity and the reported amount of claims from taxpayers in the balance sheet. The main question regarding the recognition of revenue is when revenue should be recognized. In order to realistically consider the amount and type of tax that taxpayers are obligated to pay by law, revenues from taxes are necessary to assign to the period when they are earned.

The recognition of revenue when it is earned is the eligibility criteria for reciprocal revenues. For revenues from non-exchange transactions there are difficulties in applying this criterion because revenue can be earned but not be realistically measured, which will lead to the absence of its recognition as there is time "gap" between the time when these revenues are earned and the time when they can be reliably measurable.

Many countries recognize tax revenues at the time when they are paid, or when they are measurable. In this way, the information on the amount of claims for taxes and degree of uncollectibility is lost. The introduction of accrual base, i.e., applying the requirements of IPSAS comes to the recognition of tax revenues and transfers in the period when they are incurred, regardless of whether they are collected. In this way, the information ability of balance is increased.

4.1.2. PROPERTY, PLANT AND EQUIPMENT

In the private sector the primary reason for owning property, plant and equipment and other assets is generating cash flows that contribute to the profitability of the entity, either directly or in combination with other assets. In the public sector, the primary reason for the holding of property, plant and equipment and other assets is providing goods or services to citizens, rather than generating positive cash flows. Certain assets will generate cash flows, but in most cases inflow generating will not be the primary goal of their possession.

For the purpose of good asset management, their recognition is set as the primary requirement. To recognize assets in the balance sheet it is required of a government to establish a rigorous process of identifying all assets, determine ownership and to determine their value. Recognition of the overall resources in addition to the impact on the financial position of the reporting entity has a direct impact on the financial performance since it comes to the introduction of new categories such as depreciation, capital gains/losses, revaluation and impairment losses. In addition to providing information that enables a series of analyzes such as calculating the cost of provided goods and services, evaluation and comparison of programs and projects, the effectiveness and efficiency of the entity in the course of its activities and the like.

Non-recognition of all assets that are controlled leaves space for manipulation and reduces the transparency of the government. For example, if an entity does not recognize all assets that lead to a distorted picture of the financial result, incomes from the sale of assets are recognized as revenue at the gross amount, retirements, damage and loss in value of assets is not shown because the assets are not recognized in the statement of financial position, and the like.

4.1.3. OWNERSHIP OR CONTROL RIGHTS OVER NATURAL RESOURCES

In the public sector, intangible assets occur to a much greater extent than in the private. This is especially true of monopoly and discretionary rights of government entities to issue certain permits for the use of certain resources (infrastructure, natural, etc.), or to create and delegate powers and rights. Intangible assets include goodwill, patents, brand, intellectual property, franchise, computer-software, concessions, rights such as the rights to mineral excavation rights to radio frequencies and the like.

Most countries only with the adoption of the accrual basis start including intangible assets in its financial statements. Recognition of intangible assets involves compiling a list of potential intangible assets and the application of the definitions and recognition criteria for each item on the list. Potential intangible assets include government law or agreements with other parties. Although some of these rights and the agreement will not be recognized because they will not meet the criteria for recognition as an asset or the recognition criteria to the group of intangible assets, they should be included in the list at this early stage.

4.1.4. RECOGNITION OF THE OVERALL GOVERNMENT LIABILITIES

Accrual basis of accounting, which today introduced a growing number of countries, implies the recognition of the overall liabilities of public sector entities. Timely and complete information about liabilities of the government is of great importance since their size and structure not only affects the liquidity and solvency of the public sector entities but also has wider economic impact. The main benefit of information on obligations is that they force an entity to disclose the plans of their payment. The level of liabilities indicates the need for future revenues, indicating that part of the entity's activities is funded by liabilities and etc. The absence of records of all obligations is actually the lack of recording of certain transactions and events, and their effects, which in this case were not taken into account in decision-making. When obligations are once recognized it is possible to allocate the responsibility for their management. Without full and complete information about liabilities, contingent liabilities and provisions, entities and other users cannot realistically assess the financial condition of the reporting entity. The risk of decision-making in such circumstances is greater if legislation or managers have incomplete information that misrepresents entity debt. Historically, public entities focused on current liabilities as primary measures of indebtedness, particularly in the formulation and evaluation of government decisions.

The information on liabilities are used for assessment and accountability as the basis for decision making. The entity should be able to realistically assess whether it can afford the quality and quantity of services delivered, and if they cannot afford new programs or services. Information on contingent liabilities are also of interest to external users. They help users to understand the entity exposure to the risk of over-indebtedness.

In addition to the obligations that are common to all reporting entities, government entities are characterized by the existence of specific obligations, such as obligations arising from social programs and obligations relating to environmental protection, while certain types of obligations such as short-term and long-term loans have a special meaning.

4.2. A REPORT ON BUDGET IMPLEMENTATION

Government entities perform their activities under strict restrictions related to the use of resources according to determined purposes. The most important document that presents the expected amount and structure of annual revenues and expenditures, and the inflow and outflow is budget. While the private sector entities make the business plan for the next year as a framework and plan of action by which deviates in accordance with changes in the business environment, government entities must comply with the approved budget. "Government budget is a financial plan that explains the inflows and outflows. The usual clear expression of this document is the budget, but the budget is much more than that. The budget is the result of a process involving the preparation of a financial plan, (re) examination of the plan by the legal representative, the implementation of the plan, and (ideal) process of informing the public about the results (Gode 1994)." As the act and a system, the budget is highly standardized in each country that places high demands in the area of its accounting treatment.

In order to monitor budget implementation and liquidity government budget system should be integrated into the accounting system through the introduction of planned revenues and expenditures of the legally adopted budget. This allows the preparation of required monthly reports to monitor budget implementation and could promptly respond to the observed deviations. In addition, the accounting system will enable the presentation of the budget implementation reports as ex-post reports.

Budgetary bases of reporting and accounting basis can but do not have to be reconciled. If these two bases are reconciled it is easier to integrate the budget into the accounting system. Accounting standards should be wide enough to support the integration of budget in accounting system through the use of the budget-accounting procedures. Budget procedures may include separate accounts for the monitoring of contingent liabilities, appropriations, allocations, etc.

Although some countries adopted the accrual basis of accounting, their budgets are still prepared on a cash basis. If there is a difference between budget and accounting basis, the accounting system must be organized so that it provides the information necessary for tracking and reporting on budget implementation on a budget basis. Elements of financial information used in the accounting system should be adapted to the elements used in the budget system to be able to compare the results achieved with the approved budget.

This means that the accounting system should support the preparation of budget reports on budgetary basis. Or, if you are using the accrual basis accounting, and cash budgetary basis, government accounting system should provide data on revenues and expenditures on a cash basis in order to prepare budget reports.

What is needed to point out is that although the budget and accounting basis agreed there is a difference between the budget and financial statements. Primarily, budget reports present information about planned/actual revenues/inflows and expenses/outflows and the financial statements about all the elements. While financial statements include all government entities controlled by the reporting entity, the budget covers only those entities that are partially or fully funded by the reporting entity, or that are non-profit. Budget reports can be prepared for one or more years, until the financial statements necessarily include the period of one year.

4.3. NON–FINANCIAL AND PROSPECTIVE INFORMATION

Information on financial performance, position and cash flows presented as entities in the private sector and public sector. However, the presentation of these reports by government entities is not enough to be able to create an overall picture of their work.

Reports that contain only financial information are not sufficient in assessing whether the public sector entities achieve the non-profit goals. Presentation, in addition to financial and non-financial information about the activities relating to the provision of services, is necessary to create a complete picture of the reporting entity and assessment of economy, efficiency and effectiveness of the activities of the entity. This information will help users better understand and put into the context financial and non-financial information included in the financial statements of the general purpose and enhance the role of the financial statements in providing information useful for the assessment of responsibility and decision-making.

In order to assess the overall picture of the government reporting entity financial information should be supplemented with non-financial information relating to:

- Presentation of the fulfillment of the objectives of the reporting entity related to the provision of public services, and
- The impact of current decisions on the future performance of the entity.

The form and content of these reports is not prescribed, since they are narrative and characters that can contain a series of charts, tables and sketches that will help the user understand them. Each country shall prescribe the reports, although there is a need for their international comparability and standardization.

4.3.1. REPORTING SERVICE PERFORMANCE INFORMATION

Given the fact that the users of public services, as taxpayers, allocate funds in the budget, it is necessary to be satisfied with the quality of service and efficiency of the public sector. To make it possible to evaluate the quality and effectiveness of public services, it is necessary to measure the performance of service delivery.

In recent years, a growing number of government entities present information on the results of the services provided. The aim is to present service performance information SEA - service efforts and accomplishments (Reporting performance information: suggested criteria for effective comunication 2003). The reports containing this information are prepared in order to encourage public entities to publicly report on their performance in terms of public convey the results of its operations and the policies adopted. The purpose of measuring the performance of service delivery is to improve the management of programs, increase accountability and provide better decision-making through feedback on the results of existing policies and programs of the government to improve the design and implementation of such programs now and in the future.

Measuring government performance is different from the measurements in the corporate or the profit sector as the government's goals and objectives differ from those entities that do business in order to make profit.

Measuring of success is defined as a tool for assessing progress towards the stated general and specific objectives of the program, assuming that the strategic objectives are known. It consists of the following activities (Epstein 2005):

- Documenting the "production process", consisting of processes and activities that are inputs or resources converted into outputs, or the goods and services that directly execute the program;
- Outcome -assess - the wider economic and social changes caused by translating policies or programs - and their comparison with the program goals.

In accordance with the foregoing, a special report should be created to provide a range of information on the objectives to be achieved by government services as well as their achievements. From the government's point of view, there are two reasons why it requires the presentation of this report. The first is to develop timely and accurate data that can be used in program design, management services, establishing policies, budgeting and performance improvements. Another reason is to inform users about how the government achieves its goals of maintaining and improving the welfare of citizens, and to assess the accountability of public management.

Inclusion of Report on service performance information in annual reports of government entities is a modification in the practice of financial reporting of these entities. Historically, annual reports were mainly based on financial information. However, performance measurement includes not only financial indicators, but also information about the input, output, and the results of programs or activities that can measure non-financial indicators. Among a number of measurable performances it is needed to evaluate the performance useful in assessing the responsibility and making economic, social and political decisions.

Improving financial reporting in the public sector is the result of so-called New Public Management. Many countries in the late 80s and throughout the 90s launched the reform of the public sector, which included reducing the tax burden on taxpayers while maintaining the quality and quantity of public services. In order to achieve it, there has been pressing for public sector entities to become more efficient and effective, and to provide those services to the public that will best enhance their quality of life with the lowest possible expense. If we agree that it is the primary goal of public sector entities, the question is whether its achievement can be measured only by financial indicators.

In addition to the adoption of the accrual basis of financial reporting, developed countries have started to measure performances used to assess the efficiency and effectiveness of public service delivery. In order to measure performance of the 90s it has developed a series of management models such as the 'Balanced Scorecard (Kaplan & Norton 1992)', Pyramid performance (Lynch & Cross 1991) and Results and determinants' framework (Fitzgerald et al. 199). On this subject, a number of researchers and practitioners have written much, but its implementation is less known in the practice, particularly in the public sector. Furthermore, there are more and more studies on whether the performance measurement really achieved the objectives of certain programs or public entity as a whole.

Today, under the impact of the global crisis and the consequent budget deficits and debt, the countries spent more attention, time and money to measure performance than ever before. Management based

on the results is discussed at all levels of the public sector. There is increasing pressure from citizens and legislators to demand more accountability on the expenditure of money and transparency in the reporting of the results. Transition countries follow the trend of developed countries in accordance with the obligation of monitoring and providing information on public sector performance has become a part of their legislative frameworks related to reporting. In line with the increasingly widespread practice of reporting on performance, the IPSASB published in October 2011 the Consultation Paper, and then in 2013 the draft of standard called Reporting Service Performance Information (Reporting service performance information 2014), whose aim is to standardize this information among public sector entities.

4.3.2. REPORT ON A LONG-TERM FISCAL SUSTAINABILITY

Government, in order to stabilize the economy, takes a series of economic measures. Every day, through the media, people are familiar with these measures, although not with their short-term and long-term consequences. Users of the financial statements of the government are interested in information about how the fiscal challenges facing the government influenced the compliance costs and tax policy in the long run. The minimum acceptance threshold of governmental measures is to ensure future generations at least the same quality and quantity of services enjoyed by the present generation.

This information can be presented in the statement of long-term fiscal sustainability of public finances which should evaluate to what level of government policy, under the existing legal framework, it can be done in the future assuming no change in fiscal constraints, a special tax level. Long-term fiscal sustainability can be evaluated by designing the expected trends of future activities, capital expenditures and taxation, with the risk assessment that the used projections will fluctuate significantly. This information includes the future costs of providing goods and services, the cost of government programs undertaken, the outflow from repayment of loans and tax receipts, and other resources that will be necessary to settle all obligations.

Long-term fiscal sustainability is associated with the term intergenerational equity, which is based on it to determine the extent to which future generations of taxpayers will be burdened with the fiscal consequences of current policies. Intergenerational equity indicates whether current revenues are sufficient to pay for current services, and whether future taxpayers bear the burden for services already rendered.

The IASB Australian states: "Information about inter-generational equity is the balance between debt and taxes to finance current services in capital projects. This information helps users to assess whether future generations will submit burden of financing of current services and the assessment that current and future generations equally contribute to the creation of infrastructure (Long-term suistainability of public finances 2010)".

Information about the projected long-term consequences of government programs in a number of countries are presented as improving public reporting and include joint work of economists, statisticians, demographers and specialists on Budget and Policy.

Report on long-term fiscal sustainability should include the following indicators: total debt, net debt, net capital, net financial value; fiscal gap, the budget gap between periods, fiscal dependency. Most of these indicators are present in a proportion to GDP or per capita.

During the preparation of this report, as well as reports on the long-term fiscal sustainability of the municipality, is determined the time horizon for which are performed the projections. In the majority of countries presented in this report, it is moving in the range of 25 to 75 years.

The most important question in the projection is what government policies should be considered. The drafters of this report generally start from the existing policies under the assumption that this policy will change in the future. However, the performance of the projection on the basis of legally established programs can sometimes lead to errors in the projections. Therefore, it is necessary to take into account the projection of the laws that are in the draft, but at the reporting date have not been made yet, or programs that are part of a broader reform that have not been brought to an end.

5. CONCLUSION

The basic assumption of successful governance in international professional communities is considered to be achieving fiscal transparency. The government adapted the concept of transparency if the citizens have the right to access the information about government activities. It encourages better and more informed public debate about the design and results of fiscal and broader economic policy, and public management seems more responsible for the implementation and results of this policy.

In order to make quality political, economic and social decisions but also to evaluate responsibilities of public managers it is required to design an appropriate state accounting system that will provide overall information about all aspects of government activity. Fulfillment of the objective can be achieved only by accepting the full accrual basis of accounting. State accounting system should be a database from which you can create a general-purpose financial statements and budget implementation report on the basis on which the budget was adopted as well as the report for the macroeconomic analysis. Based on the information contained in these reports the development of the state is monitored, is made comparability with other states, and it is provided sustainability of government activities and their impact on the rest of the economy.

In addition to the financial, information system state should produce and non-financial information, which is primarily related to the impact of current decisions on the future performance of government reporting entity, as well as information on the achievement of stated objectives.

Certainly one of the most important conditions for initiating the financial reporting is a strong political will and support. Political change means accepting the spread of reforms in all areas. What is important is to determine the objectives of the reform to be achieved and then determine the partial goals and the time required for their implementation.

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