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The role and application of accounting and budgeting information in government financial management process—a qualitative study in Slovenia

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ABSTRACT

The usefulness of accounting information for the design, planning and execution of the national budgeting process depends on a number of factors, such as the horizontal and vertical organization of government bodies, the structure of the state administration, adequate and timely reporting of relevant data, data interpretation and analytics. This paper focuses on the analysis of the role and application of accounting and budgeting information in Slovenia, as well as reporting in the national budgeting process. Structured interviews with prominent experts in the field were used as the main data collection technique. The results reveal the limited usefulness of the information offered by the accounting system for budgeting purposes and several collateral findings. These findings could be used as a starting point in the reform of Slovenian public financial management, as well as in similar countries.

IMPACT

The findings of this Slovenian study will be of importance to regulators, reformers and officials in other, similar, countries that are transitioning from cash-based accounting to accrual accounting and consequently redesigning their public sector accounting and budgeting systems. The paper reveals factors that should be reconsidered before reforming the public sector accounting and budgeting systems, such as having sound political support and the commitment of all stakeholders, as well as public and professional supervision at the later stages.

KEYWORDS

Accrual; budgeting; cash flow; financial accounting; Slovenia

A sound and transparent budgeting and accounting structure is a fundamental building-block for good public sector governance. Good governance of public resources should be based on continuous assessment of the effects of different policies related to financial inputs (Liapis & Spanos, 2015). Through the ideas of New Public Management (NPM), the accounting approach from the business sector has been widely adopted by the public sector in Anglo-Saxon countries. However, in many European post-Communist countries, NPM ideas were imported by international financial institutions, like the International Monetary Fund (Demir, 2018). Compared to the implementation of accounting reforms in Western countries, which have been widely discussed in the academic literature (Christiaens, Christophe, Manes-Rossi, Aversano, & Cauwengerge, 2015; Becker, Tobias, & Skaerbeak, 2014), much less is known about similar reforms and their outcomes in developing countries and countries with transition economies (Antipova & Bourmistrov, 2013; Khodachek & Timoshenko, 2018).

The trend to reform accounting practices in order to improve management and decision-making in government institutions through the introduction of accrual accounting, especially based on IPSAS, started after the turn of the present century (Brusca, Caperchione, Cohen, & Manes, 2015; Christiaens, Reyniers, & Rolle, 2010; Carlin, 2005). Reforms resulted

in adjusting accrual accounting and budgeting implementation to the requirements of government finance statistics and harmonizing the national accounting frameworks with international standards. Before that, national accounting systems and financial and budgetary reporting were regulated differently by governments and commonly used cash-based or modified cash-based bookkeeping.

In traditional public administrations, the central role in public sector accounting systems is the national budget (Liguori, Sicilia, & Steccolini, 2012; Jones, Lande, Luder, & Portal, 2013). While national governments are unique and sovereign institutions in political terms, the budget expresses a national government's sovereignty in financial terms. It is an instrument of fiscal policy on revenue and spending to achieve macroeconomic objectives, which should provide benchmarks for performance measured partly by the accounting system. Due to this close relationship, 'it is often difficult to tell where budgeting ends and accounting begins' (Chan, 2003, p. 15). Their complicated relationship may be seen in differences that reflect in focus, time perspective, conceptual model, recording system and measurement method, although they both produce financial information (Chan & Heiling, 2012).

We discuss this complex structure and intersection of budgeting and (financial) accounting in this paper. If, in the traditional model of public administration,

the primary role of accounting is to ensure compliance with the budget (Liguori *et al.*, 2012; Jones, 2012; Gray & Jenkins, 2006), what is the role of government accounting (information/reports) in Slovenia as one of the small, open, post-transition EU economies? Nevertheless, while both the annual budgets and financial reports are a government's main media for communicating fiscal information to the public, the central focus is on the budget, while the financial reports are of secondary importance (Chan & Heiling, 2012).

The accounting and budgeting reform trend in Eastern and Western Balkan countries is currently intense due to the consequences of the global financial crisis and the strong influence of international and European Union (EU) institutions. Slovenia is considering possibilities for conceptual and technical government accounting reforms at the expert level (senior government officials at the Ministry of Finance, researchers from the academia and experts from the professional associations), rather than the political level. After proclaiming independence in 1991 as part of the former Yugoslavia, Slovenia became a full EU member state in 2004. The budgetary system of Yugoslavia was based on socialist self-management, identifying accountability for the performance of government functions. By gaining independence and abandoning the move to a market economy, the problems of establishing the tax system, determining the accountability of budgetary users and monitoring public spending in general, emerged. The Public Finance Act, as the general legislative act of public finance in Slovenia, has gone through a few minor changes and supplements, including the implementation of EU directives; however, none of these changes has tackled the shortcomings of the fiscal accountability. The central government budgetary accounting is based on cash flow, while the financial accounting is based on the modified cash principle for direct budgetary units and on the accrual principle for indirect budgetary units. Direct budget spending units are bodies and organizations of central and/or local government, whereas indirect spending units are state funds, public institutions and agencies founded by the central and/or local government. Grants are allocated directly to the ministries and municipalities as direct budget users, whereas indirect budget users (IBUs) receive grants through direct budget users (Cvikl & Korpič-Horvat, 2007).

The trend of accounting reforms in public finance of introducing the accrual principle has not impacted Slovenia, despite external pressures such as the requirements of government finance statistics and initiatives of national accounting framework harmonization with IPSAS/EPAS. The negligible amount of research (Jovanović, 2015; Jovanović & Dragija-Kostić, 2018) in the field has revealed the low

development stage of Slovenian government accounting. Government accounting cannot be identified as primarily budgetary accounting since budgetary execution reports and accounting reports primarily focus on receipts and expenses on the cash flow basis (Jovanović, 2015).

This paper analyses the role of the accounting system in the budgetary cycle of the Slovenian central government. The main purpose is to highlight the factors that appear at the intersection of budgeting and accounting processes; the government accounting system should provide information that serves governmental decision-making on the one hand and the accountability to voters and taxpayers on the other. Our analysis was based on two research questions:

- What is the usefulness in Slovenia of accounting information regarding the planning and use of public funds?
- What role does budgetary and accounting reporting play in planning and preparing budgets and decisions?

Methodology

The exploratory nature of our research topic necessitated qualitative research methodology, since quantitative empirical methods would not provide satisfactory results. The research methodology was adapted to the specifics of the research problem and its implications (Yin, 2017; Golafshani, 2003). To penetrate this complex research field of public sector accounting and budgetary implementation, this paper employs a two-stage content analysis research design, which comprises a broad review of secondary sources, followed by structured interviews with prominent experts in the field. The review of secondary sources at the first stage included the analysis of pertinent literature—for example journal articles and comments, strategy documents, project documentations, institutional reports. At the second stage, the interview data contained in our interview transcripts were consolidated and analysed. This two-stage research framework was considered the most favourable methodological approach, whereas the structured interviews were used as the main data collection technique in the proposed research design.

The selection process of the potential interviewees was based on two conditions: the institutional and personal characteristics of the interviewees. The first condition included the selection of interviewees affiliated with institutions that are crucial in public sector accounting and the budgeting process, while the second consisted of two sub-conditions: hierarchical position and expertise and experience.

The condition of hierarchical position included the formal professional position in each included entity, while expertise and experience were preferred in case of considering potential interviewees in lower hierarchical positions. Interviewee selection was concluded after reaching saturation point. The credibility and validity of the interviewees' responses was ensured by their knowledge of the structural, organizational and contextual characteristics of general government budgeting and public sector accounting. A non-random sampling process was used to ensure a representative number of experts that would meet the required conditions and provide constructive participation in the research (Stanimirovic, 2015). The final sample comprised 20 prominent experts from cross-sectoral institutions strongly engaged in general government budgeting and public sector accounting. The response rate was around 75%. Participating experts were typically senior officials affiliated with different institutions: most of them from ministries (12), government agencies (four) and institutes (four). Most of the interviewees were directors (of directorates, agencies and institutes), state secretaries and former ministries. The participating experts were aged between 39 and 70 years, and there were two men and 18 women. This dominant female representation was due to the fact that more than 70% of all employees at government ministries in Slovenia are women (Ministry of Public Administration, 2018).

The data collection phase commenced with pilot interviews, and the final set of interview questions was amended and enhanced in line with the pilot respondents' suggestions. The interviews lasted

approximately 60 minutes and were carried out by the authors in person at the official premises of the interviewees from July to September 2018. The objectives of the study were explained to interviewees; they were assured anonymity and confidentiality, and special authorization for their responses was not required.

The role of the participating experts within the proposed interviewing process focused on the various aspects concerning general government budgeting and public sector accounting, contained in two compound interview questions (see Figures 1 and 2). Accordingly, they had to give their views on the role and significance of these selected factors, obstacles and deficiencies within the government budgeting process, and existing systemic limitations and inconsistencies regarding public sector accounting. Based on their experience and knowledge, participants were asked to provide constructive suggestions about improving the overall performance of the institutions engaged in budget execution (budgetary users) and institutions authorized for the monitoring of budgetary spending and planning (Ministry of Finance, the Supreme Court of Audit and the Tax Authority). The responses of the interviewees were recorded in writing and later converted into transcripts and archived.

After an extensive review of the primary and secondary sources containing problem-related content, the empirical part of the research was carried out. Analysis of the data obtained and its interpretation were carried out applying conventional content analysis. The main idea behind the content analysis was to identify, and iteratively analyse, the specific

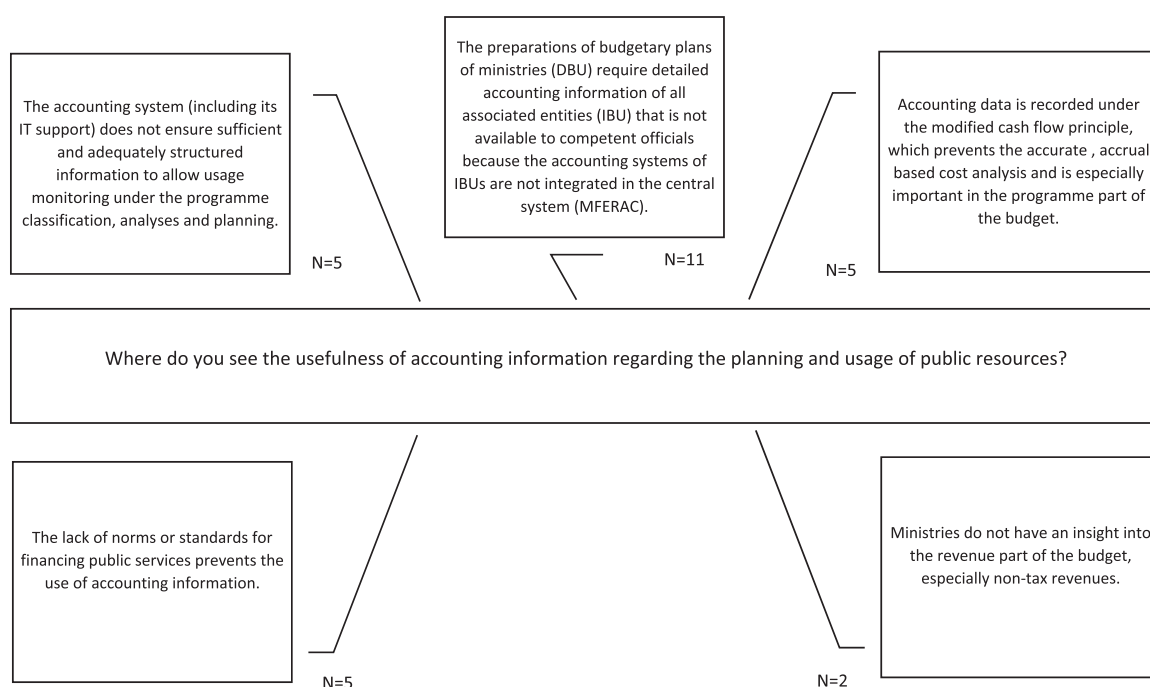


Figure 1. Statements of interviewees concerning the first research question. Source: own, interviews.

implicit/explicit arguments, assertions, opinions and evidence highlighted by the interviewees in their responses to interview questions (Stanimirovic, 2015). Following compilation of the responses, the substantial grouping and classification of the categorical statements was carried out. The comprehensive approach applied in the proposed research design assured the objectivity and credibility of the findings obtained, and eventually assisted evidence-based conclusions.

Results

The results of the interviews with professionals in the field of public accounting and budgeting are very interesting because they revealed major deficiencies in the system—both on the operational and on the strategic level. Considering the frequency of answers or claims, Figure 1 presents the potential usefulness of accounting information regarding the planning and usage of public resources. *N* denotes the number of interviewees providing a specific statement.

Managers of financial and accounting services at government ministries especially pointed out the difficulties of using accounting information in the existing accounting system. The current accounting system, which is supported by the so-called 'MFERAC' (management of the accounting and execution of the budget) application, fully covers the key functions of accounting management and executing the budget for all central government entities. However, this integrity does not allow individual users (ministries) to acquire sufficient information on past business

events, which could also serve for the future planning of public consumption. The accounting system has thus been uniformly created for the departments of education, health, culture etc., thus individual departments are working with manually created records for individual cost classifications.

The process of preparing a budget is as follows: when the government prepares the general budget for departments (amounts or percentages for each ministry), each ministry has to prepare their own financial plan based on the directions and priorities given by their minister. Each ministry then requests their IBUs to prepare an individual budgetary plan. The cumulative budgetary plan of the ministry (direct budgetary user—DBU) is the sum of individual budgetary plans of IBUs and the consumption of own resources for the functioning of the ministry. During this phase, analytical information is taken from the accounting system and the missing data is acquired in other ways. Thus, the interviewees pointed out the lack of integration between the central government accounting system (the MFERAC application) and the IBUs' accounting systems as an additional non-functionality or deficiency of the accounting system. The latter are autonomous in accounting management or executing the budget, therefore business functions are resolved in various ways. For example outsourcing and insourcing use different applications that are not integrated into the central government accounting system. Consequently, ministries that transfer cash (grants) to IBUs do not have any insight into the accounting information and must always request the information they need.

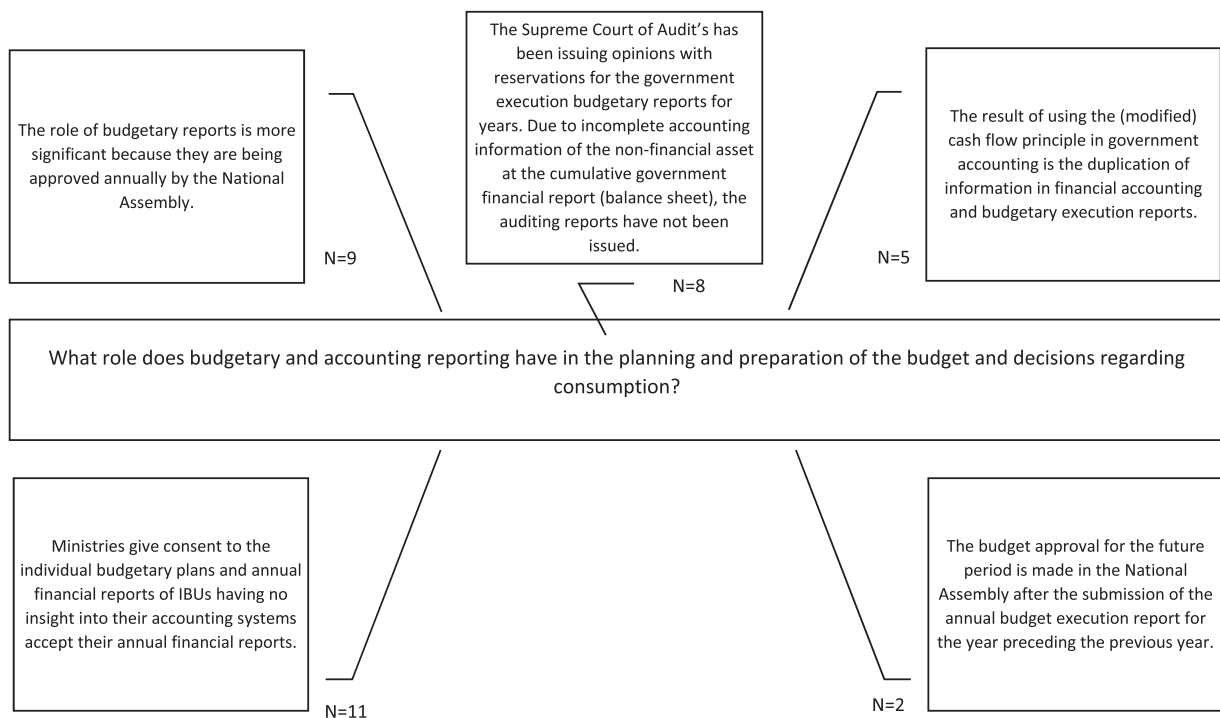


Figure 2. Statements of interviewees concerning the second research question.

Some interviewees questioned the usefulness of the accounting information in the current accounting system, which stems from using a modified cash flow principle in recording business events. The legal regulations and national chart of accounts state that ministries, as DBUs, manage accounting ledgers under the modified cash flow principle, which, in addition to recording revenues and expenses under the net cash flow principle, allows the recording of (short-term) unpaid revenues and unpaid expenses in the accounting system. However, all revenues and expenses are disclosed under the cash flow principle—both in the analytical records of accounting ledgers and in budgetary execution reports. Many interviewees pointed out the lack of (accurate) standards and norms for financing public services performed by IBUs, therefore the usability of the existing accounting information is also flawed. Finally, our interviewees indicated that insight into the revenue part of the accounting system is impossible because the latter is being planned, executed and monitored by the Ministry of Finance or the Financial Administration of Republic of Slovenia (FURS).

In addition to the usefulness of the accounting information, our research also focused on the analysis of the role of the budgetary execution reports and financial reports in the process of planning and preparing the budget or in making decisions regarding consumption. The results are presented in [Figure 2](#).

All interviewees thought that the role of the budget execution reports in the Slovenian public finance area should be greater than the role of the financial reports. This view was backed with the facts that the budget execution reports are approved annually by the National Assembly and that the latter report is audited by the Supreme Court of Audit of the Republic of Slovenia. The interviewees, who prepare individual budgetary plans of ministries, confirmed that the data from the current execution of the budget is also used as a starting point for planning the budget of the future year, where they perform the necessary corrections by considering certain information from accounting and other records. Considering the role of double reports (financial and budgetary), the interviewees often drew attention to the audits of the Court of Audit, which has been issuing opinions with reservations for government budgetary execution annual reports for many years. In addition, for many years the Supreme Court of Audit did not give any opinion on the cumulative state balance sheet due to incomplete accounting information about non-financial (fixed) assets.

Ministries approve the adoption of IBUs' budgetary plans and annual financial reports without the possibility of looking into their accounting systems. Summaries of the IBUs' annual financial reports are

prepared under both the accrual principle and the cash flow principle, but the information for each subject is summarized and most of the time is incomparable due to the absence of standards. Because IBUs send their reports to the DBU and also to the state agency (Ajpes), cases have already occurred where the reported information to the ministry was not the same as the information sent to the agency. The interviewees highlighted the poor quality of the analytical accounting information provided by the individual financial reports of the IBUs. To support those claims, it has been pointed out that, even though the ministries allocate grants to IBUs for non-financial assets investment and are legally obligated to maintain them in numerous cases, the analytical accounting records for the non-financial assets were not been provided to ministries until 2017. Therefore, a central record of non-financial assets of the government (state) is now being established for the first time, and is currently about 85% completed (National Assembly, 2018). Incomplete integration of accounting systems, as well as the generally poor quality of the analytical accounting information of IBUs for budgetary purposes, are often reflected in deficient planning and projections. For instance, 600 million euro of additional revenues were reported in 2017, which were not been accounted for in either individual budgetary plans or cumulative government execution budgetary report (National Assembly, 2018).

A few interviewees highlighted the limited quality of the accounting information due to the modified cash flow principle usage, which uses budgeting information as a primary source. Information from ministries' (DBUs') financial reports, especially statements of revenue and expenditure, is consequently identical to the information from the budget execution reports and, therefore, there is duplication of data within the dual reporting.

Finally, an issue was raised on the role of reports in the planning and preparation of future budgets from the viewpoint of time limits. Namely, the budget for the next year in the National Assembly is usually approved before the approval of the final execution budgetary report for the year preceding the previous year. Even though the final budget of the year preceding the last would be approved beforehand, this data has a time delay of two years. In short, the role of the reports is, due to the time delays, very limited.

Discussion

The results of our research show that data from Slovenia's financial accounting and budgetary system, as well as the budgetary execution reports and financial reports, are used only in part. Moreover,

existing data and reports are generally not applicable for planning and decision-making regarding the future usage of public financial resources and there are several shortcomings in the current system. The November 2018 report of the Supreme Court of Audit No. 320-2/2015/44 on the effectiveness of the MFERAC application in managing the programme budget supports our findings. Similar to the findings of our research, the latter reports on the numerous deficiencies in the accounting system, especially the inability to accurately monitor costs under programmes, sub-programmes and measures that are an integral part of the programme budget. Inaccurate recording of costs cannot be an appropriate basis for planning future budgets, similarly the systems used for monitoring of specific business events in different ministries does not ensure quality information for making decisions on the efficient usage of public resources. Considering the usefulness of accounting information, our literature review shows different results regarding the accounting principle and user information (external/internal). While certain authors (Montesinos & Vela, 2000) found that users prefer performance information that goes beyond financial information and budgetary information and includes accruals, others (Kober, Lee, & Ng, 2010) point out the growing role of accrual-based accounting over time. The latter claim that governmental decision-making and performance analysis necessitate financial information other than cash-based because the information based on the cash flow principle is inadequate for the ever-changing needs of financial management, and therefore governmental decision-making is redirected to full costs and liabilities management.

Nevertheless, the limited capability of cash-based accounting should not affect the main purposes of the government accounting. According to Chan (2003), the protection of public treasury by preventing and detecting corruption is the basic purpose of government accounting. Sound financial management is the intermediate purpose while public accountability is the top (advanced) purpose of all government accounting. Our research results show that accountability is not being adequately addressed in Slovenia. There are several inconsistencies at all levels of the public accountability in Slovenia, referring to the principal-agent relationship (theory), in terms of the accountability of the bureaucracy to the chief executive, the executive to the legislature and the government to the people (Broadbent & Laughlin, 2003). A common alibi claimed by offenders is to do with the vertical and horizontal dispersion of accountability between different institutions and sectors. These situations are regularly evidenced in the annual revisions of the government budget execution reports performed by Slovenia's Supreme

Court of Audit. These revisions frequently reveal deficiencies in the public accountability system at all three levels in Slovenia, arising from the incompleteness of the accounting information about the non-financial assets in the cumulative state balance sheet (Supreme Court of Audit, 2018).

More than half of our interviewees pointed out that, in addition to accounting reasons, non-accounting reasons exist for the ineffective system of financial management and budgeting. They confirmed that, due to a lack of politically set priorities, the poor financial education and awareness of the management of the budget users, the frequent major media exposures of certain departments, they are planning the budget assets using the principle of 'a little something for everyone', while previous financial and accounting data is neglected. Several interviewees pointed out the outdated legislation as ministries are funding IBUs who often operate as institutions, regulated by a law passed in 1991. The latter are a heritage of the previous political and economic system and differ immensely, both in their activity and in the legal regulation and staffing in managerial posts. In addition to the manager, the institute is also managed by a collective body (the council), to which several members are appointed based on politics and who are usually incompetent to perform those functions, which was also confirmed by the interviewees in our research.

In addition to the non-accounting shortcomings, our ministry interviewees also mentioned obstacles arising from national accounting specifics. The results of the interviews revealed that accounting information based on the modified cash principle is necessary but inadequate for serious cost analysis, which is indispensable for good programme budgeting. While the accounting system of the ministries (DBUs), which is based on the (modified) cash principle is much more transparent than in the past, the accounting system of IBUs (also part of central government) is designed on the accrual (and cash flow) principle and is much less transparent due to dispersion or non-integration. Despite numerous warnings from the Supreme Court of Audit that ministries have to exercise more control over their IBUs, such controls are not being carried out in practice because of the low number of staff. Our findings revealed that the modified cash flow accounting principle has not been identified as the main shortcoming of the Slovenian accounting and budgetary system; however, it is perceived as one of the factors to achieve transparent budgeting and performance measurement. The biggest problem we found concerns the poor integration of government accounting systems, which consists of DBUs (central and local governments) and their 2,000 IBUs. The technological fragmentation of MFERAC and other accounting applications causes inter-operability

problems and lack of substantive financial control, which is exacerbated by the use of different accounting principles. The difference in accounting principles between IBUs (accrual accounting) and DBUs (modified cash accounting) intensifies the challenges concerning the establishment of a uniform national accounting system in Slovenia, putting pressure on public institutions and their managements. The growing awareness of the deficiencies in the public accounting system resulted in legislative proposals opting for integration of the institutional accounting systems with government budgetary system in 2016–2017. However, these were not implemented in the latest changes to the legislation in 2018.

In addition to the inaccurate recording of costs in Slovenian government accounting, especially concerning the monitoring of costs under performance budgeting, our research also indicates the uselessness of dual reporting without a clear goal and purpose. In Slovenia, a central role is given to budget execution information, while the analytical perspective of financial accounting is neglected at all levels of governance. The recording of business events under the cash flow principle for both budgetary and financial accounting purposes causes dual reporting with identical information, while the modification of the cash flow principle is being reflected only in the balance sheet and not in the revenue and expense statements of the DBUs. All these findings raise the question:

Should Slovenia implement accrual accounting?

The strength of the resistance to changes in this area were seen in the statements of almost all interviewees, who claimed that only a handful of professionals at the competent authority for public accounting have been holding back on changes in the past 20 years. They are currently more likely to reform government accounting due to staff changes; however, they are focusing on the future development of the EPSAS and are analysing the experiences of other countries in this area.

Interviewees were largely on the same page in terms of their answers. However, there were some differences. The interviewees from Ministry of Finance emphasised the lack of key policy priorities setting, resulting in poorly prepared budgets. This lack of priority setting can be seen in some ministries which, due to political pressure, are maintaining systems on the surface without any commitment to serious studies of efficiency. In the context of information usability for internal and external users, the Ministry of Finance interviewees also mentioned poor usage of information by the political decision-makers in the National Assembly.

The extent to which the economic concepts adopted for macroeconomic management—national

accounts (ESA 2010)—can be applied to government accounting at the micro level is our future research challenge, as well as comparing our Slovenian results with similar research in Croatia.

Conclusion

Government accounting is much more complex than accounting in the private sector. The traditional public finance expenditure cycle in the public sector starts with budgeting and is finalized by accounting. However, NPM has influenced government accounting in many Western countries, for example the UK and Australia. It has brought ideas and tools, which put emphasis on accountability, on the autonomy of individual managers, and on the importance of accrual financial accounting.

A government accounting system's goals are to provide the information needed for budgetary planning and the monitoring of its execution in accordance with legal and budgetary constraints, as well as information for managing and supervising the operations of individual state entities and the state as a whole and to provide the information necessary for macroeconomic management. We have focused in this paper on determining the level of the accounting and budgeting system's development in Slovenia and we have highlighted the factors that have prevented the Slovenian government from implementing NPM reforms. Our research is a pioneer attempt to analyse the usefulness of accounting and budgeting information systems in Slovenia, both of which have gone through an intensive period of economic and social transition in the past three decades. Our literature review revealed that public sector financial management reforms intensified in the EU membership process, with improvements predominantly in the field of performance (programme) budgeting. The findings in this study revealed technological, and material (substantive), but also conceptual shortcomings in the accounting and budgeting system in Slovenia. Focusing on accounting, 'which is an active and significant instrument of social and political as well as economic mobilisation' (Hopwood, 1985, p. 375). We found a serious lack of politically-set priorities connected to poor public accountability. The result is unreliable public finance data, poor long-term planning and non-evidence-based public policy-making. In addition, public procurement was non-transparent and the budgeting for big national projects was ineffective.

Based on our research insights, there are a few important factors that should be reconsidered before reforming the public sector accounting and budgeting systems in Slovenia and similar countries. A precondition for effective and efficient government accounting and budgeting is sound political support

and the commitment of all stakeholders. Accordingly, the regulation, criteria and recommendations, as well as the resources (material, human and IT), for implementation and utilization of accounting and budgeting systems should be established at the beginning of any reform process. In addition, public and appropriate professional supervision is vital. The findings of this paper will be of interest to regulators, reformers and officials in other, similar, countries that are transitioning from cash-based accounting to accrual accounting and consequently redesigning their public sector accounting and budgeting systems.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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