

# Conditions and factors to improve financial reporting in government and public sector

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**Abstract-**In the operation of public entities and public sector there's a demand for quality not only in the execution of tasks, but also excellence in reporting for better assessment and evaluation of factors that improve working conditions during the performance of obligations towards citizens and society in total. In this respect we have to make efforts that will contribute to easier and faster execution of tasks, as well as timely information to all who are interested in the work process and the results of it. To increase or improve the quality of financial reporting in the public sector one should certainly know the needs of all stakeholders, who they are and what they demand from the financial statements. Namely, if the creation of balance includes all the qualities and standards, it is assumed that all consumer requirements are satisfied. But, is the degree of satisfaction for all customers equally the same? Is the said data and information sufficient for any particular group of users? Hence, the role of information in the accounting concepts and its implementation is put first for quality financial reporting of all user groups, either directly or indirectly involved in the activities of the entities, or groups that are beneficiaries of the goods and services from the state and public sector. In fact, the need to review and define the data and information that is indeed required, is a priority of the financial accounting function in the state, as well as the private and public sector.

**Keywords:** *state and public sector, quality financial reporting, users of financial statements, financial accounting function.*

## I. INTRODUCTION

Today in the 21st century, a century that certainly suggests a lot of things, especially with the Internet this will be the century of information. Many famous names in the world long ago said that the most expensive thing is neither gold, nor diamonds. Most expensive thing in the world is correct and timely information. Namely, seeing the world in a way that we can study and obtain written and recorded data from the past only a century ago will confirm today the thought that gets greater importance. And we as a generation of the 21st century, we can conclude that in the process of world globalization, unification of concepts and standards in many scientific and educational fields, all of us need accurate, timely and useful information. Therefore, today should specifically highlight the importance of factors that condition the quality of financial reporting in the public as well as state sector. As a basis, the importance of accounting information system and its output, ie the information as a quality product are the main requirement

when making correct decisions by managers and other stakeholders and users of financial statements.

In this context, the interdependence of governmental and non-profit organizations raises questions, and those questions will have an answer if you have financial reporting that will be transparent and will provide useful data and information. In the public sector, as a parallel of the private sector, including the government sector, we come to confusion when we want to single out certain criteria that will allow us to apply for and use resources that our state allows. The inevitability of state reporting and informing in the public sector, with involvement and implementation of international accounting standards for the public sector and international auditing standards for public sector leads to meeting and satisfying the needs of citizens in each national economy. The fact is that their implementation will lead to the harmonization and unification of the financial reports which will result in improvement of the public sector, a better insight into the spending of the funds and resources and selection of the best way for their allocation and in whatever national economy it happens. However, funds, budget funds and funds of nonprofit organizations management is quite a complex process. From here, it should be stressed out that the decision-makers, despite their knowledge, experience and commitment, should get reliable, timely and useful information that will give better results and meet the needs and the services regarding the citizens.

## II. THE ROLE AND IMPORTANCE OF FINANCIAL REPORTING IN GOVERNMENT AND PUBLIC SECTOR

Today, the government accounting and accounting in the public sector is not just a record of events in public and nonprofit organizations. It has far wider and greater role in the totality of the conduct of business obligations and duties, preparation of plans, policy decisions and strategic goals. In fact, with its own concepts, specific accounting principles, accounting information system in government entities and the public sector holds a special meaning. The procedures of which it is designed ie steps to record the events in the budget, the fund and non-profit entities are quite complex and responsible, but of course with the sole purpose of public disclosure and transparent presentation of information to stakeholders. They have a special purpose in obtaining the financial reports to be consulted on many available resources and their provision to be made available to the residents of the state, and thus to the national economy. In fact, to devise policies and modus operandi of the entities in order to achieve greater efficiency

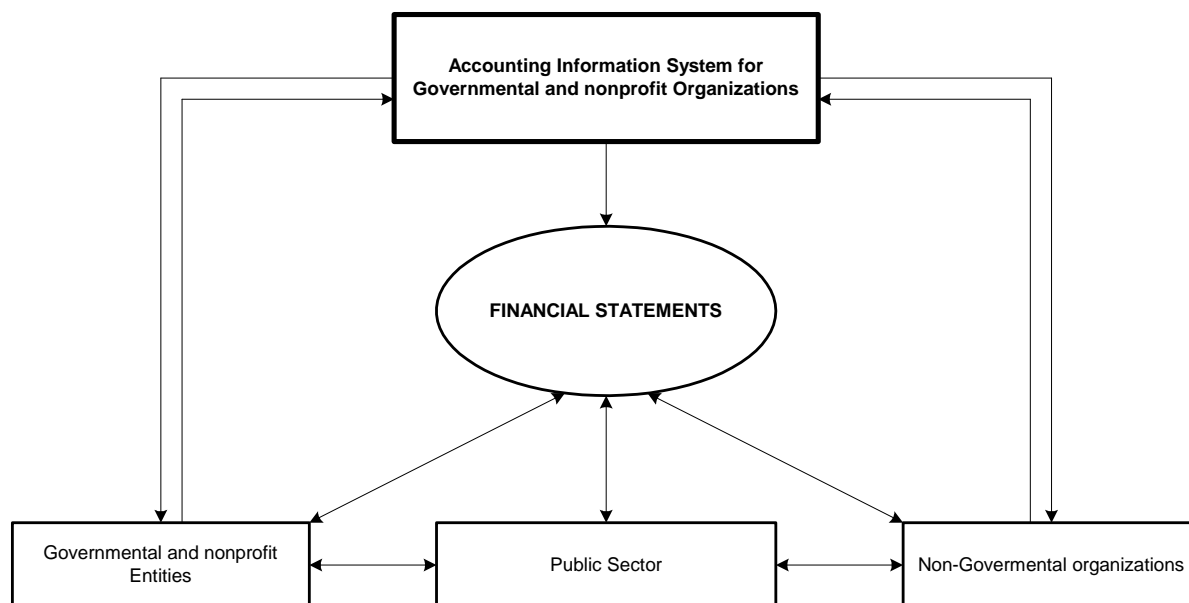


Figure 1. Interchange the connection of AIS - GAANO with government, public and NGO sectors

and effectiveness in terms of natural resources. All this points to an ongoing process of monitoring the situation first on a

Financial reporting has the role of interchange between the public sector, government and non-profit organizations, users (stakeholders) and the private business sector where connection is established that exceed certain obstacles at work. Therefore, the useful information about the state of means, their utilization, allocation of resources, the inflow and outflow of funds are foundation of the state (government) system being in function of the rest - the economy (private and business sector). Directly, the information arrived in the hands of managers is expected to accomplish the goal of achieving better financial reporting and better contribution in respect of future results. Highlighting the shortcomings and problems that arise when providing information from the accounting information system for the timely monitoring of the changes made in fiscal and monetary policy of the country and the policies of interstate and bilateral relations will be able to provide a solution that would remove them and get a new system with sophisticated software applications.

### III. FINANCIAL REPORTING FOR NON-PROFITS AND THE PUBLIC SECTOR IN THE REPUBLIC OF MACEDONIA

Governmental accounting and accounting for non profit organizations is particularly important function and depends on the legislation and the order in the state and the job is awarded and implemented in different units. Some time ago, this accounting was considered only a formal notice unlike today where it starts from a scientific approach and forms the basis of making important decisions on budget execution, funds, investments and other current and future decisions. Therefore, for financial reporting in government and the public sector only its importance and fundamental significance can be confirmed, and this accounting in the Republic of Macedonia is governed by "Rules for accounting in nonprofit organizations." The Regulation prescribes bookkeeping, accounting documents and data processing, organization of accounting, recognition of

local and regional level, and then on a global level.

revenues and expenditures, the assessment of balance sheet items, revaluation, asset inventory and more. This regulation is based on the Law on accounting for non profit organizations, signed by the Minister of Finance of the Republic of Macedonia.

Financial reporting by state accounting system provides data for:

- All types of income and expenses - The condition and movement of all resources
- Liabilities and sources of funds.

According to chronological order all events and transactions are entered in business records (diary, ledger) and subsidiary ledgers (the cash register book, purchases book, inventory book, etc..) where the posting and providing valuable data and information is done directly. In this way any changes are reviewed regularly and are recorded in business records whether it is done in dot matrix style or in digitized form and checking their accuracy and ability to be used as indicators in the financial reports. Electronic (computerized) accounting practices requires knowledge of the computer science where the appropriate software is running on entering the required data in the previously prepared program to provide the necessary information. This information guarantee their truthfulness and accuracy through confirmation of accounting documents and signature certified by a responsible person. The accounting for governmental and public units is self-organized by them and they decide on how to provide and use data according lawful use of resources and determining the results of operations of individual organizational units.

Accounting information system for the public sector must provide automatic registration of operations , which includes:

- Planning and execution of the budget of the Republic of Macedonia
- Planning and execution of budgets of local units in the state ,
- Planning and managing funds, - Planning of responsibilities and management with government funds ,
- Management of the treasury account at the National Bank of the Republic of Macedonia,
- Public Debt Management ,
- Valuation of costs, - Management of fiscal and monetary policy ,
- Monitoring and control of tax policy ,
- Other activities .

To achieve the above requires universality in creating financial reports and their uniformity, that can be achieved with the implementation of accounting standards for the public sector, international auditing standards for public sector, international concepts, codes and principles that will contribute to the development of instruments and proper decision-making and management of state finances and resources and greater satisfying of the needs of the citizens of the Republic of Macedonia.

#### CONCLUSION

This way you can overcome obstacles arising as a consequence of the transition of the Republic of Macedonia. The construction of the new system will provide better quality way to contribute and better information level (horizon) whereas factors will arise for the development of

Compared to the previous system of regulation of the Republic of Macedonia in the field of accounting can be done parallel of the eligible and ineligible features that halt progress or lead the progress of the state (government) system aimed at citizens. Factors that influence the possible development of financial reporting in governmental and nonprofit accounting are:

- Reform of the previous accounting system of the Republic of Macedonia
- Introduction of a sophisticated system for monitoring and control of events
- Acceptance of IASPS and AISPS and their adjustment to the economy of Macedonia ,
- Unification and harmonization of accounting plan for government and non-profit accounting,
- Better and higher education of those responsible in the work process ,
- Reconciliation of Government and Nonprofit Accounting in Republic of Macedonia with accounting of developed European countries ,
- Creating an audit system for all units, agencies and institutions involved in government and public sector
- Creating an accounting system that despite evidence will establish greater control of documents, data and results obtained from it.

government and nonprofit accounting in our country. The fact is that many challenges and problems that have hindered the way for development of efficient accounting system with accurate and reliable information could not have been realized at the beginning of the independence of the country,

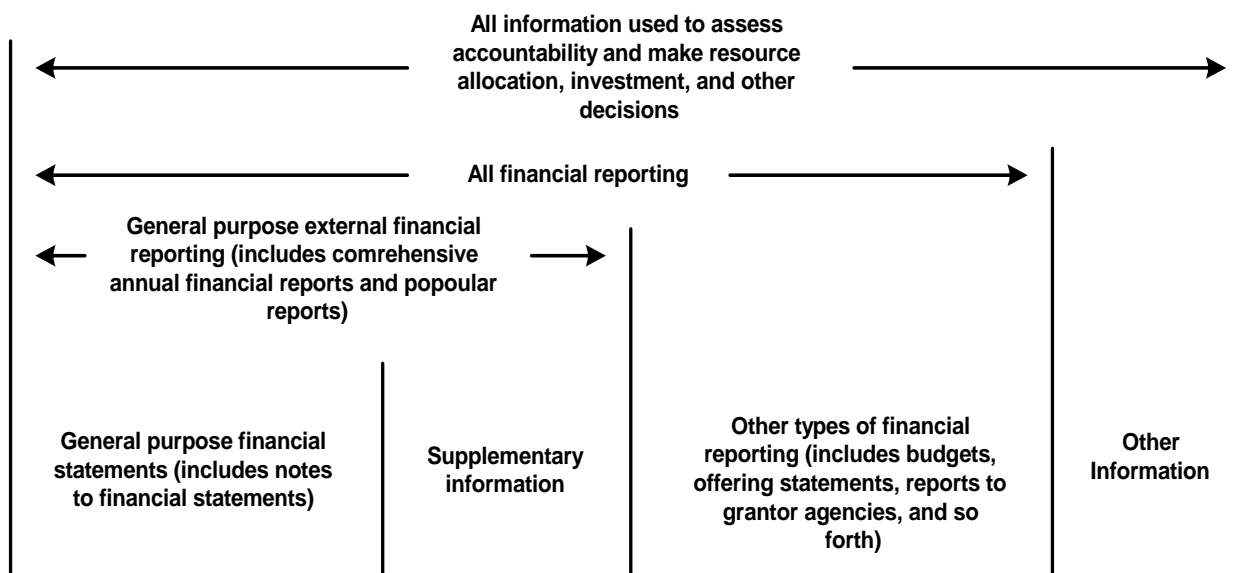


Figure 2. Information Used by Financial Report Users

Source: GASB<sup>1</sup>, Codification, Appendix B, Figure 1.

but today it is necessary to overcome such obstacles:

- The complexity of the system of government type of action in society
- The size and structure of resources and finances,
- The complexity of the economic situation,
- Pace of globalization,
- The financial crisis,
- New business environment.

Here you can highlight that financial reports are a complex process, although these are reports (balance) in government and non-profit institutions or public sector. The financial reporting itself consists of a set of individual processes that are mutually dependent and in their assembly in the form of financial reports represent their value in use. Specifically, the quality of financial reports have directly:

- Managers (responsible for the information presented
- The application of the code of ethics by accountants, controllers, managers etc ,
- Compliance with the Rules, regulations and legal principles in the creation and entry of accurate information in the financial statements,
- Support of events and transactions with full documentation,
- Display of non-financial and financial information.

The application of the principles set out by the GASB (Government Accounting Standards Board) such as altruism, integrity, objectivity, accountability, openness, honesty, leadership, results in achieving objectives such as reducing the risk for speculative and useless information, increasing efficiency and effectiveness in financial reporting, increase system quality financial reporting in government and public sector.

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