



The Attitude of Public Sector Accountants Towards Nonfinancial Reporting

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Abstract

The role of accounting in the public sector is to provide the information necessary for decision-making and accountability. In response to the changes in the public sector, a new form of reporting is emerging, namely nonfinancial reporting. It is expected that accountants involved in financial reporting will also be involved in the preparation of nonfinancial reports. This paper aims to investigate how accountants perceive nonfinancial reporting and whether they believe that they should be involved in the process of preparing nonfinancial reports. The research in this paper was conducted using a questionnaire sent to public sector accountants in Croatia from February to April 2022. The results of the study show that accountants are not overly positive about nonfinancial reporting, i.e. apart from believing that nonfinancial reporting will become more important in the future, they disagree or are quite undecided about the current need to prepare nonfinancial reports. Although accountants believe that they are in the best position to assess financial sustainability, they do not believe that they should be involved in the process of preparing nonfinancial reports. Our study contributes to the literature on nonfinancial reporting in the public sector and to the literature on public sector accountants' attitudes towards nonfinancial reporting.

Keywords: public sector, accountants, nonfinancial reporting, challenges, questionnaire

1. Introduction

Accounting is a purposeful activity, which is directed towards a certain goal, and consequently it is expected to be useful (Jones & Pendelbury, 1992). Therefore, it is not surprising that accounting as an information system plays an important role in public sector reform processes with the aim of enabling improvements in public sector management (Ruiz, 2000). Through the disclosure of information in the financial reports of public sector entities accounting fulfills two fundamental goals: providing information that serves as a way to discharge accountability and providing information that enables users in their decision-making process (IPSASB, 2014; Van Helden & Reichard, 2019).

The overall objectives of accounting information are not changed, however the environment in which this information is used is constantly changing and the accounting systems need to evolve to achieve these objectives in the evolving environment (Ruiz, 2000). To enable better communication via accounting information and to increase the usefulness of accounting information, the development and inclusion of nonfinancial reporting in public sector has recently gained prominence.

Nonfinancial reports have increased in significance and frequency in public sector due to social and environmental issues becoming also increasingly relevant in that setting. Previous research has shown that public sector entities have begun to regulate their accountability in the wider sense to the public by providing a number of different nonfinancial reports (Guthrie et al., 2017; Lodhia et al., 2012; Mussari & Monfardini, 2010; Williams et al., 2011). Moreover, the IPSASB emphasize that financial reports should be accompanied by supplementary nonfinancial reports, which represent a broader view of the organization's activities in a certain period of time (IPSASB, 2021). The information requirements by different groups now also lead to the requirement that public sector accountants prepare additional reports (Gill & Sharma, 2023). The accounting profession should be able to move away from the standard financial reporting (Caruana & Dabbicco, 2022) and rise to the demand for nonfinancial reporting.

However, there are two challenges in public sector accounting when it comes to nonfinancial reporting. One challenge is the introduction and preparation of nonfinancial reports as an additional reporting requirement, and the second challenge is the accountant's role in gathering and providing nonfinancial reports. The purpose of this paper is to examine accountant's perception about nonfinancial reporting and their opinions as to whether they should be involved in nonfinancial reporting at all and in what capacity.

This paper is divided into five sections. After the introduction, the development of nonfinancial reporting and the role of accountants are presented in the second section, while development of the research problem is provided in the third section. The research methodology and results are presented in the fourth section before concluding remarks are made.

2. Nonfinancial reporting in public sector and the role of public accountants in the process of reporting

Nonfinancial reports that include information on social responsibility, corporate governance and sustainability have become complementary to financial reports in the private sector reporting. Such reports are a useful tool particularly in times of financial crises, climate change, and various unexpected situations that highlight the importance of contributing to the society, not only in terms of economic contributions, but also in terms of social and environmental conditions faced by reporting entities, especially public sector entities. Therefore, nonfinancial reporting appears to be one answer to the need for accountability in public sector and the opportunity to provide information to citizens in order to create transparency mechanisms as well as to restore citizens' trust and the legitimacy of governments (Markota Vukić et al., 2017). Nonfinancial reporting is a broad term. There are different types of nonfinancial reporting that refer to sustainability reports, social responsibility reports, and integrated reports (Stolowy & Paugam, 2018). Currently, nonfinancial reporting is driven by a traditional accounting system, where accounting and accountability systems are designed to meet the needs of investors and shareholders with little additional information suited particularly to public sector (Dillard & Vinnari, 2019).

At the European Union level, regulation of nonfinancial reporting has been implemented through Directive 2014/95/EU. At the end of 2022, a new Directive 2022/2464/EU was published, bringing changes to nonfinancial reporting previously defined under the Directive 2014/95/EU. The amendments included an expansion of the scope of reporting entities (apart from large companies, reporting entities include small and medium enterprises that are subject to public interest), an expansion of the content of nonfinancial reports and the reference to the creation of EU reporting standards on sustainability. International professional organizations have developed various nonfinancial reporting frameworks to facilitate the preparation of nonfinancial reports. Some of these developed frameworks for nonfinancial reporting are: OECD Guidelines for Multinational Enterprises (OECD, 2011), United Nations Global Compact Initiative (UNGC, 2022), International Reporting Framework (IIRC, 2013), Global Reporting Initiative Standards (GRI, 2022). These guidelines and standards are non-binding and were developed primarily for private sector. Public sector is only mentioned in some guidelines (OECD) in connection to the management of state-owned enterprises. The International Reporting Framework was also developed for private sector entities, although it is noted that public sector entities can also benefit from application of that framework by focusing on activities and reporting beyond profit making (CIMA, 2016: 7, IFRS Foundation, 2022: 6). In reviewing the available frameworks, it is clear that the exact nature of sustainability reporting for public sector is currently unclear. Therefore, the IPSASB discussed in its consultation paper how to take the lead in establishing sustainability reporting guidelines for public sector (IPSASB, 2022). The adoption of global guidelines on nonfinancial reporting and sustainability reporting by public sector entities around the world would significantly contribute to the comparability of public sector reports.

In addition, the United Nations (2012) "Sustainable Development in the 21st Century" project highlighted better accounting practices as the key to better informing and measuring progress toward sustainability. With technical expertise, key reporting skills, and ability to analyze and translate data into understandable metrics, accountants are in an excellent position to advance such sustainability reporting (Ngwakwe, 2012). As accountants are a key information provider to enable appropriate governance, expectations of the accounting profession have increased, and accountants must be able to support governance and good financial management in a dynamic and complex public sector environment (IAESB, 2019).

Previous studies about accountant's and their involvement in nonfinancial reporting have been conducted mainly in the private sector, so there is little literature addressing the function of accountants in nonfinancial reporting in the public sector. Telford (2005) found in a national survey in the United Kingdom that accountants in U.K. local authorities are generally not involved in the environmental reporting of their entities. In a longitudinal study of Australian local governments, Williams et al. (2021) found that accountants who are involved in the nonfinancial reporting process, are also performing traditional finance functions, indicating an expansion and a shift in accountants' analytical skills.

In addition, there is a small number of studies examining accountants' perceptions of nonfinancial reporting in the public sector (e.g., Ball, 2002; Ball, 2005; Williams, 2015). Ball (2005) examined the accountant's role in nonfinancial reporting and found that sustainability reporting must first fit within the financial accounting framework to be considered part of the accountant's responsibility. However, Ball (2002) found that while most council accountants support nonfinancial reporting, they do not believe that they should be involved in this type of reporting and therefore tend to overlook it. Williams (2015) found positive results in highlighting the role of the local government accountant in sustainability reporting, with high levels of support for their involvement in that type of reporting.

3. Development of the research problem

The obligation to prepare and publish a nonfinancial report was introduced in the Republic of Croatia by the Act amending the Accounting Act (Official Gazette, 120/16), which transposed the provision of Directive 2014/95/EU into the Croatian legal system. Croatian enterprises that are large enterprises, subject to public interest, and enterprises that exceed the criterion of an average number of 500 employees during the financial year on the balance sheet date are obliged to prepare and publish nonfinancial reports. Mandatory nonfinancial reporting in Croatia was introduced for such entities in 2016 and applies to reporting periods starting on January 1, 2017. Previous research shows that a growing number of public sector entities are getting involved in nonfinancial reporting, however there is poor evidence of nonfinancial reporting by Croatian public sector entities (Čičak et al. 2021; Redmayne et al., 2022; Dragija Kostić et al., 2022).

Previous research, as well as the lack of legal regulations, indicate that in the Republic of Croatia public sector entities (with the exception of state-owned enterprises) are not required to prepare nonfinancial reports. Therefore, in this paper we decided not to investigate the actual use and preparation of nonfinancial reports, but rather to focus on accountants' perceptions of nonfinancial reporting and their potential involvement in the nonfinancial reporting, guided by the fact that previous literature indicated that accountants should participate in the nonfinancial reporting process. Indeed, the literature has shown that accountants have essential skills in organizing data, understanding appropriate data collection techniques, and processing large amounts of data into an appropriate set of reported performance indicators (Pierce and O'Dea, 2003). Schaltegger & Zvezdov (2015) argue that in addition to the role of promoter, accountants can also act as gatekeepers by either prioritizing or paying little attention to sustainability information in their communications with decision makers. Among other reasons for accountants' involvement in nonfinancial reporting practices, these authors also cite that accountants can act as knowledge and information experts in deciding what information to collect. Moreover, Hoang (2018) emphasizes that with the advent of integrated reporting, accountants play an important role in providing stakeholders with sustainability related information.

Therefore, from the previous literature it can be deduced that there are two challenges in public sector accounting when it comes to nonfinancial reporting. One challenge is the introduction and preparation of nonfinancial reports as an additional reporting requirement, and the second challenge is the accountant's role in gathering and providing nonfinancial reports. The purpose of this paper is to examine accountant's perception as to whether they should be involved in nonfinancial reporting and if so, in what capacity. Therefore, we define the following research questions:

RQ1: What is the accountant's opinion on nonfinancial reporting?

RQ2: Should accountants be involved in the process of preparing nonfinancial reports?

4. Research methodology and research results

This research was conducted using data from the survey originally prepared for the project "*Challenges of financial and nonfinancial reporting by public sector entities in the changing user needs environment*". The survey was conducted from February to April 2022. Public sector accountants were surveyed by email. For research purposes, we defined public sector accountants as accountants employed in public authorities, local (regional) self-governed entities, state budget users, and local (regional) self-governed budget users. Based on publicly available data, we have created a database of accountants who are employed in the public

sector. By random selection, we sent an e-mail to 500 addresses of accountants in our database. A total of 151 responses were received, making it response rate of 30.2%. Not all data from the surveys was used for this research, only some questions related to nonfinancial reporting we used for this paper. For research purposes in this paper, the term nonfinancial reporting was used to refer to various formats of nonfinancial reports. In order to analyze results, descriptive statistics (mean and standard deviation) and inferential statistics (ANOVA test) are used for analyses of responses.

In our sample, accountants between the ages of 36 and 45 predominate (32%), while there is an equal number of accountants between the ages of 25 and 35 or 56 to 65 (26%). In the sample, 18% of the respondents have completed high school, while 82% have higher education.

4.1 Accountants' opinion on nonfinancial reporting

To obtain an answer to the first research question, accountants were presented with statements about nonfinancial reporting. On a Likert scale of 1 (strongly disagree) to 5 (strongly agree), they had to express their agreement with the statements provided. The statements were related to the need to prepare nonfinancial reports and were intended to determine the accountants' opinion on nonfinancial reporting. Table 1 shows that accountants mostly agreed with the statement that nonfinancial reporting will become more important in the future. In the second place was the statement that information users need nonfinancial reports. Further analysis of the data reveals that 32% of the respondents mostly agreed with this statement, while 8% of respondents completely agreed with the statement. 29% of respondents were undecided, while 31% of respondents disagreed with the statement. In addition, accountants do not show positive attitude towards the statement that public sector entities should produce nonfinancial reports, i.e., that public sector entities improve their reputation when they publish a nonfinancial report. Although further analysis shows that 40% of respondents agree with the statement that public sector entities do improve their reputation if they publish a nonfinancial report, 33% of the respondents also disagree with that statement, while 27% are undecided. When analyzing the responses to the statement that public sector entities should produce nonfinancial reports, it was found that 39% of the respondents agree with the statement, however on the other hand, 35% of the respondents disagree with that statement, while 26% of the respondents are undecided. Accountants are the least likely to agree with the statement that a legal requirement for nonfinancial reporting should be introduced for public sector entities. Further analysis of that statement revealed that 38% of respondents disagree with that statement, while 36% of respondents are undecided and only 26% of respondents agree with the statement that it is necessary to introduce a legal obligation for nonfinancial reporting for public sector entities in Croatia. To conclude, nonfinancial reporting does not appear as something that public sector accountants currently consider as necessary or important or in a need for regulation.

Table 1: Opinion of accountants on nonfinancial reporting

Statements	Mean	Standard Deviation
Nonfinancial reporting by public sector entities will become more important in the future	3.36	1.042
Different categories of information users need nonfinancial reports	3.01	1.183
Public sector entity will improve their reputation if it publishes a nonfinancial report	2.97	1.197
Public sector entities should produce nonfinancial reports	2.90	1.215
It is necessary to introduce a legal obligation for nonfinancial reporting for public sector entities	2.74	1.187

Source: Authors' elaboration

Bots et al. (2009) and Budding et al. (2022) studied the required competencies for management accountants in the public sector and found that there was a difference in their responses in terms of age groups. We checked if there was a difference in the responses of accountants in our study. Analysis of the data, as presented in Table 2, shows that the youngest accountants, aged 25-35, mostly agree with all of the above statements, agreeing most with the statement that nonfinancial reporting will become more important in the future, while they are agreeing the least with the statement that it is necessary to introduce a legal obligation for nonfinancial reporting for public sector entities. Respondents in the other age groups also mostly agree that nonfinancial reporting will become more important in the future, while they are the least likely to agree with the statement that there is a need for a legal obligation to produce nonfinancial reports. Respondents aged 36-45 are least likely to agree with the statement that information users should prepare a nonfinancial report, while the youngest accountants are most likely to agree that nonfinancial reports should be prepared. In addition, respondents aged 36-45, compared to respondents aged 46-55 and 56-65, are least likely to agree with the statement that information users need nonfinancial reports and that there is a need to introduce legal requirements for such reporting. Clearly, there is the effect of age group in these answers and younger public sector accountants appreciate the nonfinancial reporting more than other groups.

Table 2: Opinion of accountants on nonfinancial reporting by age group

Age	25-35		36-45		46-55		56-65	
Statements	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Nonfinancial reporting by public sector entities will become more important in the future	3.70	0.926	3.26	1.093	3.35	0.978	3.28	1.132
Different categories of information users need nonfinancial reports	3.30	1.329	2.92	1.156	2.96	1.129	3.00	1.219
Public sector entity will improve their reputation if it publishes a nonfinancial report	3.43	1.121	2.92	1.285	2.88	1.160	2.90	1.150
Public sector entities should produce nonfinancial reports	3.52	1.201	2.77	1.245	2.83	1.209	2.78	1.143
It is necessary to introduce a legal obligation for nonfinancial reporting for public sector entities	2.83	1.114	2.54	1.072	2.81	1.197	2.83	1.318

Source: Authors' elaboration

Therefore, in regard to the first research question, what is the opinion of accountants on the need for nonfinancial reporting, we can deduct that accountants are not overly in agreement, apart from the belief that nonfinancial reporting will become more important in the future. They disagree or are quite undecided on the need to prepare nonfinancial reports, with as many as 35% of respondents disagreeing. Accountants are also least likely to agree and believe that there is a need to introduce a legal requirement for nonfinancial reporting for public sector entities. A comparison of responses by respondents' age show that the youngest accountants are most likely to agree with the need to prepare nonfinancial reports, while all groups share the opinion that it is not necessary to introduce legal obligation for nonfinancial reporting for public sector entities. These results are in line with previous studies (Bots et al., 2009; Budding et al., 2022) who found that there is a difference in responses by accountants in terms of their age group.

4.2 Should accountants be involved in the process of nonfinancial reporting?

The second research question is related to public accountants' perceptions of their involvement in nonfinancial reporting. Accountants were presented with statements to which they were asked to indicate their agreement on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The results are shown in Table 3. Most accountants agreed with the statement that they are in the best position to assess financial sustainability. Further analysis revealed that 10% of respondents disagreed with that statement, while 70% agreed and 20% were undecided. Accountants partially agree with the statement that they are in the best position to manage the budget process. While 64% of respondents agree with the statement, 21% are undecided and 15% of respondents disagree with the statement. Accountants were least likely to agree with the statement that they should prepare nonfinancial reports as part of preparing financial reports. Although 36% of respondents agree with that statement, 33% of them are undecided and as many as 31% disagree with the statement. On the other hand, accountants are more likely to agree with the statement that public managers should be responsible for nonfinancial reporting. While 18% of the respondents disagree with that statement, 29% of them are undecided and even 53% of the respondents believe that it is necessary to make public management responsible for nonfinancial reporting. As one of the reasons for not participating in the preparation of nonfinancial reports, accountants were asked a question about their knowledge. 22% of the respondents disagree that accountants do not have enough knowledge to participate in the preparation of nonfinancial reports and believe that they have enough knowledge for such reporting. In addition, 33% of accountants are undecided and even 45% of accountants agree with the statement about not having enough knowledge and skills and believe that accountants do not have enough knowledge to participate in the preparation of nonfinancial reports. In general, we can conclude that while accountants believe that they are best placed to assess financial sustainability, they do not believe that they should be involved in the process of preparing nonfinancial reports, (36% disagree with that statement, 27% are undecided, however, still 37% believe that they should be involved in the process of preparing nonfinancial reports). Given that previous research has shown that accountants do support nonfinancial reporting if they are involved in the process of nonfinancial reporting (Telford, 2005; Ball, 2005), and given that nonfinancial reports are not routinely prepared by public sector entities in Croatia, as previous research has shown (Čičak et al., 2021), we can conclude that the relatively negative attitude towards the involvement by accountants in the nonfinancial reporting process is related to the fact that the appropriate systems for nonfinancial reporting have not been developed yet influencing the accountants who do not fully realize the importance of such a reporting and their role in it.

Table 3: Accountants' perception of their involvement in nonfinancial reporting

Statements	Mean	Std. Deviation
Accountants are in the best position to assess financial sustainability	3.81	0.991
Accountants are in the best position to manage the budget process	3.62	1.100
Public management should be responsible for nonfinancial reporting	3.46	1.136
Accountants do not have enough knowledge to participate in the preparation of nonfinancial reports	3.28	1.150
Accountants should prepare nonfinancial reports as they prepare financial reports	2.98	1.191
Accountants should be involved in the process of preparing nonfinancial reports	2.91	1.286

Source: Authors' elaboration

Similarly, to the first research question, we analyzed the answers in terms of the age groups of the responding accountants (Table 4). Respondents aged 36-45 are most likely to believe that accountants are in the best position to assess financial sustainability, followed by

respondents aged 56-65, while the youngest accountants, aged 25-35, are the least likely to agree with this statement. Respondents aged 36-45 also agree the most with the statement that accountants are best able to manage the budget process, followed by respondents aged 56-65, while respondents aged 46-55 agree the least. The youngest accountants are least likely to agree that they should be involved in the preparation of nonfinancial reports, as the oldest accountants aged 56-65 do, while accountants aged 36-45 are most supportive of the idea. The oldest respondents, ages 56-65, while not agreeing that they should be involved in the preparation of nonfinancial reports, largely agree that accountants are in the best position to prepare nonfinancial reports because they also prepare financial reports. The youngest accountants, ages 25-35, mostly strongly agree with the statement that accountants are not knowledgeable enough to participate in the preparation of nonfinancial reports, while older respondents, ages 46-55, least agree with that statement. The youngest and the oldest respondents are the most likely to agree that public management should be held accountable for nonfinancial reporting. When comparing the results by the age of the responding accountants and using ANOVA test, some differences were found, however they were not statistically significant. Looking at the results, overall it can be concluded that the youngest accountants think that they do not have the sufficient knowledge and skills for nonfinancial reporting, which could be the reason why they do not overly agree with the statement that accountants should be involved in the preparation of nonfinancial reports. On the other hand, the oldest group of respondents are aware that accountants are best able to prepare nonfinancial reports because that age group in general also prepare financial reports. However, they also do not support the statement that accountants should be involved in the preparation of nonfinancial reports. In other words, they do prefer not to expand their current roles and duties. Next to the youngest group of respondents, the oldest group agrees the most with the statement that accountants do not have enough knowledge to participate in the preparation of nonfinancial reports. Our findings are consistent with the research by Ball (2002), who found that accountants support nonfinancial reporting overall but do not believe that they should be involved in the process of preparing these reports. In Croatia, in our sample, accountants do not support the idea that they should be involved in the process of preparing nonfinancial reports and are also undecided about the need to prepare such nonfinancial reports.

Table 4: Accountants' perception of their involvement in nonfinancial reporting

Age	25-35		36-45		46-55		56-65	
Statements	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Accountants are in the best position to assess financial sustainability	3.38	0.887	4.10	0.882	3.58	1.164	3.78	0.891
Accountants are in the best position to manage the budget process	3.57	1.080	3.85	1.159	3.46	1.166	3.65	0.975
Public management should be responsible for nonfinancial reporting	3.83	1.114	3.38	1.227	3.27	0.939	3.53	1.261
Accountants do not have enough knowledge to participate in the preparation of nonfinancial reports	3.65	1.152	3.26	1.186	3.08	1.164	3.35	1.075
Accountants should prepare nonfinancial reports as they prepare financial reports	3.04	1.022	2.97	1.328	2.83	1.243	3.10	1.105
Accountants should be involved in the process of preparing nonfinancial reports	2.96	1.224	3.05	1.297	2.73	1.317	2.95	1.300

Source: Authors' elaboration

5. Concluding remarks

Considering the fact that nonfinancial reporting is increasingly included in the reporting by public sector entities, the aim of this study was to investigate the opinion of accountants involved in the process of preparing and providing reports, potentially also including nonfinancial reports. The results of our research show that all participants in the survey think that nonfinancial reporting is likely to become important, however accountants do not want their current roles to also include nonfinancial reporting. In addition, none of the participants in this study wanted to have nonfinancial reporting legislated. There are some slight variations in the opinions between groups (age groups) where in general younger accountants and the older accountants are less confident about their nonfinancial reporting skills and knowledge while the middle age group is more confident than others.

Overall, this study contributes to the sparse literature on nonfinancial reporting in the public sector. In particular, it sheds light on the perceptions of report preparers and providers, i.e., public sector accountants regarding nonfinancial reporting. In doing so, it contributes to the ongoing debate on nonfinancial reports, whether there should be legal requirements to prepare such reports, and who should prepare and be responsible for these reports. The findings in this study are specific to Croatia, but their relevance is broader for at least two reasons. Firstly, many of the issues affecting nonfinancial reporting are found in a number of other countries and public sector entities around the world. Secondly, given the relative absence of regulations governing nonfinancial reporting by public sector entities, the perceived opinions of preparers are likely to be of interest to policymakers internationally as they begin the process of assessing their existing reporting frameworks to accommodate additional reports such as nonfinancial reports and sustainability reports.

Our paper also has other certain limitations. Research in this paper was conducted in only one country which limits the ability to generalize the findings. Further comparative research with other countries might therefore provide additional insights by, for example, conducting in depth interviews with the respondents about nonfinancial reporting.

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