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The Use of Public-Sector Financial Reports: A Comparative Analysis of Different Information-User Groups

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ABSTRACT

Purpose: This paper investigates the extent to which different user groups in the public sector consult financial reports. Because these reports are prepared for a wide audience, we examine whether the intended recipients actually use them and explore variations in how—and why—they are used.

Design/methodology/approach: The study concentrates on politicians and public managers, adopting a quantitative design. A bespoke questionnaire was developed and administered by telephone across the Republic of Croatia between February and April 2022. Split-half factor analysis, *t*-tests and x^2 tests were employed to identify differences in both the frequency of use and the reasons for use between the two groups.

Findings: Respondents reported that they both receive and actively consult financial reports. Public managers use the reports significantly more often than politicians. Nevertheless, financial reports are generally treated as secondary sources, whereas budget-execution reports are consulted more frequently. The analysis suggests that information relevance and the respondent's role are the principal determinants of use.

The reliance on a single questionnaire instrument constitutes a limitation, discussed in the cited literature.

Research limitations/implications: Future research could incorporate additional data-collection methods (e.g. interviews or document analysis) and extend the study to other jurisdictions to enhance generalisability.

Originality/value: The study adds empirical evidence to the international debate on the purpose of public-sector financial reporting and clarifies how specific factors shape report use or non-use.

Keywords: public-sector financial reports, usage intensity, politicians, public managers, questionnaire

POVZETEK

Uporaba finančnih poročil v javnem sektorju: primerjalna analiza kategorij uporabnikov informacij

Namen: Prispevek raziskuje, koliko različne skupine uporabnikov v javnem sektorju pregledujejo finančna poročila. Ker so ta poročila namenjena širokemu krogu naslovnikov, preverjamo, ali jih ciljni prejemniki dejansko uporabljajo, ter preučujemo razlike v tem, kako – in zakaj – jih uporabljajo.

Zasnova/metodologija/pristop: Študija se osredotoča na politike in javne managerje ter uporablja kvantitativni raziskovalni pristop. Prilagojen vprašalnik je bil pripravljen in od februarja do aprila 2022 izveden po telefonu po celotni Republiki Hrvaški. Za ugotavljanje razlik v pogostosti in razlogih za uporabo med obema skupinama so bili uporabljeni *split-half* faktorska analiza (metoda razpolovitve), *t*-testi in x^2-testi.

Ugotovitve: Anketiranci poročajo, da finančna poročila tako prejemajo kot jih tudi aktivno pregledujejo. Javni managerji jih uporabljajo precej pogosteje kot politiki. Kljub temu se računovodski izkazi praviloma obravnavajo kot sekundaren vir, poročila o izvrševanju proračuna pa se pregledujejo pogosteje. Analiza kaže, da sta glavna dejavnika uporabe relevantnost informacij in vloga anketiranca. Uporaba enotnega vprašalnika je omejitev, ki je obravnavana v citirani literaturi.

Omejitve raziskave/implikacije: Prihodnje raziskave bi lahko vključile dodatne metode zbiranja podatkov (na primer intervjuje ali analizo dokumentov) in razširile študijo na druge jurisdikcije, s čimer bi izboljšali posplošljivost ugotovitev.

Izvirnost/vrednost: Študija s svojimi empiričnimi rezultati prispeva k mednarodni razpravi o namenu finančnega poročanja v javnem sektorju in pojasnjuje, kako specifični dejavniki vplivajo na uporabo ali neuporabo poročil.

Ključne besede: finančna poročila v javnem sektorju, intenzivnost uporabe, politiki, javni managerji, vprašalnik

JEL: M41

1 Introduction

The reform processes that have been actively implemented in public sector accounting over the last four decades have been aimed at improving the quality of public sector management. The reforms also affected the financial reporting system (Ruiz, 2000). Systems that were previously quite closed became more open and started to provide the same information to different users such as politicians, public managers, citizens, control bodies, media and other users (Jorge et al., 2019). The reforms implemented influenced the academic community, which expressed the need for research on accounting information users and their information needs. Thus, research was conducted on the following topics: who the users of accounting information are, whether information is used at all, why it is used or why it is not used, what information is used, how it is used, what information is more useful for what purposes and under what circumstances (e.g. Buylen and Christiaens, 2016; Caruana and Faruggia, 2018; Liguori et al., 2014; Liguori and Steccolini, 2019; Raudla, 2022).

In democratic societies, the public sector financial reports (hereinafter: PSFRs) are expected to be used by politicians and public managers when making decisions and expressing their responsibility to citizens and higher levels of government (Guarini, 2016). However, previous research has shown that the use of financial reports is limited, and some authors still emphasize that this is an under-researched topic (Jorge et al., 2019; Van Helden and Reichard, 2019).

On the other hand, the budget is the most important financial instrument of the state for the executive and legislative authorities to ensure the supervision of financial operations and the implementation of various budgetary controls. When examining the use of budget execution reports and financial reports, it was found that budget execution reports are preferred (e.g. Moretti, 2016; Gomes et al., 2023).

Given that PSFRs are regarded as a crucial tool for accountability in the public sector, and that prior research has indicated they are used to a limited extent in an under-researched area, there is a clear need for further study. Specifically, it would be valuable to investigate the users, their use of financial reports, and the reasons behind this usage, to observe any potential changes over time. In addition, previous research has mostly focused on just one group of respondents. The aim of this study was therefore to carry out empirical research and involve different groups of information users to see if they use the reports, if there are differences in usage and what the reasons for using the reports are. The research was conducted with two groups of respondents, politicians and public managers. The findings confirmed that budget execution reports are still preferred over financial reports. However, all respondents indicated a high level of use of the reports. When comparing the responses, it was found that there is a difference in usage and reasons for usage in relation to the respondents' role. The responsibility of the respondents as well as the relevance of the information prove to be decisive for the use of the reports themselves. In addition, knowledge as a personal characteristic affects the use of the reports, i.e. the understanding of the reports themselves.

The high level of use implies that the key to more frequent use of reports by public sector entities lies in ensuring that reports fulfil the users' purpose.

The work is divided into five parts. The introduction is followed by the identification of the users of PSFRs and the development of the theoretical framework. The third part presents the research questions, and the fourth part contains the research approach and the research results. The fifth part develops the discussion and draws a conclusion based on the data processed.

2 Background

2.1 Definition of Users of PSFRs

Financial reports are considered to be important communication tools in the public sector (Cohen and Karatzimas, 2017). In public sector, the purpose of reports is to provide users with useful information on accountability and for decision making. Intended users and their information needs are critical to the form and the content of financial reports (Taggeson, 2015). In the case of public sector entities' reporting, the range of potential users can be very wide, as almost every person or business has some type of relationship or exchange with the public sector.

There are a number of studies that researched the users of public sector entities' reports (Mack and Ryan, 2007). During the 1970s and 1980s, many researchers focused on identifying the users to whom accounting information must be provided (Anthony, 1978; Drebin et al., 1981). This work continued for a couple of decades, until the 1990s. Most of the studies published during this period focused on external users (Patton, 1978). These empirical studies were conducted considering the needs of different users and uses of accounting information. Collins et al. (1991) investigated the use of local authorities' financial reports by local councils in Scotland. Their research showed that although local councils skimmed certain financial chapters of the reports, they did not consider them as a primary source of information. These authors concluded that the lower use of such information is influenced by the characteristics of information presented in the reports.

Internal users, i.e. public managers, were identified as users of financial reports in Brusca (1997) study. Following Brusca (1997) researchers tend to classify the potential users of financial reports in public sector as (Steccolini, 2004):

a) external users,

b) internal users.

External users include citizens, that is, citizens receiving public services and taxpayers, companies using public services, higher levels of government, regulators, auditors, other public entities, as well as foreign investors, banks, rating agencies and academic community. Internal users include council members in local governments and executive members in national or central governments, public managers, civil servants and trade unions in the public sector (Steccolini, 2004).

PSFRs are prepared primarily to meet the needs for information of resource providers and service recipients who are not authorized to request specific information from public sector entities and that is necessary for their decision-making (IPSASB, 2014). Legislative bodies and parliamentarians or similar representative bodies are also considered as primary users of financial reports when they act as representatives of service recipients and resource providers (IPSASB, 2014).

2.2 Prior Empirical Research

Previous usage analysis examined the use of financial reports as well as the use of accounting information that included variety of reports and performance information (Buylen and Christianes, 2016; Caruana and Faruggia, 2018; Jorge et al., 2024; Pajković et al., 2023; Raudla, 2022; Saliterer et al., 2019). The results of these studies showed that the actual use of financial reports is low, and financial reports do not present a primary source of information in public sector. While some authors argue that both the characteristics of the information and the characteristics of the reports play key roles in the use of reports (Caruana and Faruggia, 2018; Jorge et al., 2019), other authors believe that the individual characteristics of the respondents influence the use (Yamamoto, 2008; Askim, 2009; Faber and Budding, 2022; Rogošić, 2021; Sinervo and Hapala, 2019).

Although the number of papers investigating the use and usefulness of PSFRs has increased in the last ten years, this area still remains an unexplored topic, especially in Southeastern European countries. Namely, previous papers have mainly focused on the analysis of budget and accounting bases and their relationship to financial reporting systems. For example, Poljašević et al. (2019) analyzed the application of budget and accounting bases and their relationship to financial reporting systems through a comparative study of three Southeastern European countries: Slovenia, Croatia, and Bosnia and Herzegovina (the entity of Republika Srpska). The analysis showed that budgetary reports based on the cash basis represent the primary source of information for decision-making, while financial reports based on the accrual/modified accrual basis are not the result of the information needs of decision-makers. Furthermore, the monograph (Vašiček and Roje, eds., 2019) provided a comprehensive overview of the practices and development of accounting, auditing and control systems in the public sector of seven Southeastern European countries. Each chapter analyzed the territorial organization, the scope of the public sector, budget formulation and execution, accounting and financial reporting reforms, and challenges in further development, but did not discuss the usefulness of the reports presented. One of the rare works that analyzed the usefulness of reports in selected countries of Southeastern Europe is the work by Poljašević et al. (2021). The authors conducted empirical research on the perceived usefulness of accounting information for public managers at local levels in Croatia and the Republic of Srpska. The research results showed that in both countries both budget and financial reports are considered very useful when making decisions, while their experience and education were not related to the perception of usefulness. Moreover, Rogošić (2021) conducted an empirical study to assess the level of use and usefulness of accounting information among public managers and governing politicians, but from the perspective of the accountants. The results of that study, conducted in the Republic of Croatia, show that public managers use more accounting information in decision-making than governing politicians. Pajković et al. (2023) investigated the extent to which politicians use financial statements and the perception of the usefulness of the statements. The results showed that politicians in Croatia use financial statements, but their perception of the usefulness of these statements is greater than their actual use. The main reasons for non-use were that they do not need the reports, that they are not in their area of interest, and that they contain too many technical terms. Research of Pajković (2023) was to determine the usefulness of financial statements prepared on a modified accrual basis from the perspective of public managers and accountants in the public sector of the Republic of Croatia. The research showed that financial statements do not fully meet the needs of public managers and reforms in public sector accounting are expected in the near future.

2.3 Theoretical Framework – Upper Echelons Theory

Most previous conducted and mentioned studies in this area have used questionnaires or interviews as the methodology, while very few previous studies have used any other observational methods. The analysis of previous literature on the use of PSFRs shows that a descriptive approach to the research problem is generally adopted, while theoretical arguments generally do not play an important role (Van Helden, 2016). Jethon and Reichard (2022) conclude that the use of public sector financial reports differs between politicians in the executive branch and public managers, due to different roles that those subjects hold, their different level of formal education and the experience they have as a council member. Jorge et al. (2016) conclude that a distinction between politicians and public managers in terms of their roles, work positions and scope of their responsibilities have explanatory power, as the public managers' and politicians' roles seem to be critical in the use of financial reports. However, more recent research (Faber and Budding, 2022) used the Upper Echelons Theory (Hambrick and Mason,1984, as cited in Faber and Budding, 2022) as a theoretical framework, which originates from the private sector research. Faber and Budding's (2022) study focused on the extent to which the political role and the personal characteristics of users influence their use of information. Faber and Budding (2022) analysed the use of accounting information as well as other information during political debates. Although political role and personal characteristics influence the use, the differences in absolute numbers due to those characteristics were small. Their study has shown that politicians in parliament use less accounting information and other information compared to politicians in government. In addition, their study finds that representatives of the parties in the governing coalition use more accounting information than representatives of the opposition. Looking at the personal characteristics of the respondents, younger representatives use accounting data and other information more than their older colleagues, while more experienced representatives use less accounting data than representatives who have just started their political career.

3 Developments of the Research Problem

Despite efforts to bring accounting information closer to citizens through various reporting tools, it is reported that citizens are still a group of users who make limited or infrequent use of accounting information (Van Helden and Reichard, 2019). In a democratic society elected politicians represent citizens and are recognized as the main user group of accounting information (Van Helden and Reichard, 2019), including financial reports. This is due to their involvement in decision-making and their responsibilities for public sector programs and projects. Some authors believe that managers are the main users of financial reports, not the politicians, because they need the reports to also make decisions as well as hold politicians accountable (Brusca, 1997). However, previous studies have also shown that the use of reports by politicians and public managers is limited (Gomes et al., 2023; Jorge et al., 2019; Pajković et al., 2023; Yamamoto, 2008). Van Helden and Reichard (2019) define use as actual consultation, i.e. reading and analysing information in the reports by public sector entities in decision-making and accountability processes. Although an increasing number of empirical studies on the use of accounting information have been conducted, there is still a need for further empirical studies in this area. Previous studies have shown that there is a strong need to link different variables to the level of financial reporting use. Moreover, previous studies have mainly focused on one group of users. The aim of this study is therefore to examine the use of financial reports by two different groups of information users, namely politicians and managers, in one and the same environment to determine their specific use of the reports. In addition, this study also investigates the differences in use amongst these two different groups and what the reasons for their different use of the reports are. Furthermore, this paper aims to examine whether Upper Echelons theory can be applied to the public sector, specifically exploring whether the role and responsibilities of the information user affects the use of reports.

Therefore, based on previous research, research questions in this study are:

1. Do public managers and politicians use PSFRs, i.e. can we consider them actual users or only recipients of financial reports?
2. Are there differences in the use of PSFRs between public managers and politicians?
3. What are the reasons for using PSFRs and what influences their use and any differences in their use?

This study was conducted in the Republic of Croatia. The analysis of the existing reporting system by public sector entities in the Republic of Croatia revealed that there are two reporting systems currently in use in Croatian public sector. Budget execution reports are required, which are prepared semi-annually and annually. Additionally, financial reports are required to assess the financial position and performance. Regarding public sector reporting at the European Union level, the transition to accrual accounting is recommended, though there is currently no legal obligation for all member states to fully implement accrual accounting. Therefore, the Republic of Croatia as an EU member currently does not apply accrual accounting in their public sector. Public sector reports are instead prepared on a modified accrual basis. Croatia has shown in the last thirty years' significant progress in public sector accounting reforms, where there has been a significant shift from a full cash accounting basis to a current form of modified accrual accounting basis.

4 Research Approach and Research Results

4.1 Research Approach

To address the defined research questions, a telephone survey was conducted with two groups identified as recipients of information. To obtain a sample, the population was determined. For this study, we decided to include two groups of respondents. The first group consisted of politicians, members of representative bodies, while the second group consisted of public managers. In the sample of politicians included members of parliament and councilors of the county council, city council and local council. In the sample of public managers were included members of the Croatian Government, county prefects and their deputies, mayors of cities and their deputies, mayors of municipalities and their deputies, heads of public sector entities. The research was conducted on the territory of Croatia in the period from February to April 2022. Initially, databases were created based on publicly available data (websites of the Croatian Parliament, counties and local and regional self-government units, data from the State Electoral Commission, websites of the Croatian Government, websites of counties, cities and municipalities, and the Register of Budgetary and Extra-Budgetary Users of the Ministry of Finance) and 7,828 politicians and 3,942 public managers were identified. The aim was to achieve a quota sample of 500 respondents. Ultimately, 505 responses from politicians and 511 responses from public managers were collected through random selection. Unlike previous research that did not make a clear distinction between politicians and public managers (Jorge et al., 2019), in this paper we look at these two groups of respondents separately. Although they are sometimes equated, politicians are primarily members of the legislative and representative branches of government, while public managers are part of the executive branch with managerial responsibilities. Due to the differences in their roles and levels of responsibility, we believe it is justified to analyze them as separate categories.

For this research, a new measurement tool was created, namely a questionnaire containing mainly closed-ended questions and questions on a Likert-type scale from 1 to 5, with 5 indicating the highest level of agreement and 1 the lowest level of agreement. The questions for the questionnaire were based on a review of the previous research (e.g. Brusca and Montesinos, 2013, Caruana and Faruggia, 2018; Gomes et al., 2023; Guarini, 2016; Jorge et al., 2016; Jorge et al., 2019, Poljašević et al., 2021). Moreover, in creating questions an overview of the Croatian legal framework in relation to public sector accounting was observed too, as well as the structure and content of the required financial reports. The questionnaire was extensive and only selected questions were used for the purposes of this work. The remaining questions are a basis for other studies and the results of the remaining questions are or will be reported in other studies. As this was a new measurement instrument, it was necessary to determine the reliability and validity of the scales used. Reliability was measured using Cronbach's alpha coefficient, while validity was measured using a combination of exploratory and confirmatory factor analysis on a number of items relating to the use of financial reports and budget execution reports. The questions that were found in the factor analysis to be a valid and reliable measure of the use of the mandatory financial reports were averaged into a new variable. Appropriate statistical methods, including descriptive and inferential statistical analysis were used in processing and interpreting the primary data collected. The chi-square test was used to test the difference in the proportion of public managers and politicians using financial reports and the reasons given for their use, while the Welch t-test was used to test the difference in the frequency of use of financial reports and budget execution reports in relation to the respondent's role.

4.2 Sample Analysis

Personal characteristics of the respondents are presented in the Table 1 from which it is evident that the sample of politicians is dominantly male, while opposite is the situation with the sample of public managers, who were predominately female. Regarding education, among politicians, the highest percentage of politicians in the sample completed high school. In the sample of public sector managers, almost all respondents have completed higher levels of education, very small percentage have completed high school. In terms of educational background, most public managers in the sample hold degrees in the social sciences, while only a small portion have an educational background in economics. In the sample of politicians, most respondents have had education in other scientific fields unrelated to economics (such as technical sciences, construction, agribusiness, healthcare, IT sciences, tourism and various other professions). Respondents were also asked about years of experience in their current position. In contrast to the politicians in the sample, most of whom have held their current position for less than a year, only a small number of public managers are similarly new to their roles, suggesting that public managers generally have more experience in their positions.

Table 1. Personal characteristics of the respondents

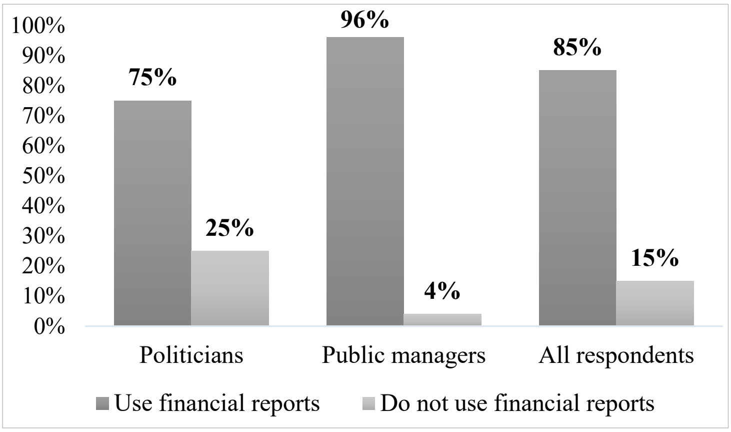
Gender	Politicians	Public managers
Female	33%	61%
Male	67%	39%
Level of education		
Elementary education	1%	0%
Secondary education	37%	6%
Bachelor's degree	17%	8%
Master's degree	36%	66%
Postgraduate education	9%	20%
Field of education		
Economics	21%	11%
Social sciences	21%	62%
Other field of sciences	58%	27%
Experience on the position		
Less than 1 year	47%	13%
1 – 5 years	26%	34%
6 – 10 years	15%	25%
11 – 15 years	6%	11%
More than 15 years	6%	17%

Source: Authors' elaboration

4.3 Research Results – The Use of Financial Reports

At the start of the survey, the respondents were asked whether they use PSFRs. Figure 1 shows that the majority of respondents in the sample use financial reports, while a smaller proportion do not. However, when examining the samples of politicians and public managers separately, it becomes clear that public managers make more frequent use of financial reports than politicians, as anticipated. Respondents who in both samples stated that they do not use financial reports were excluded from further survey.

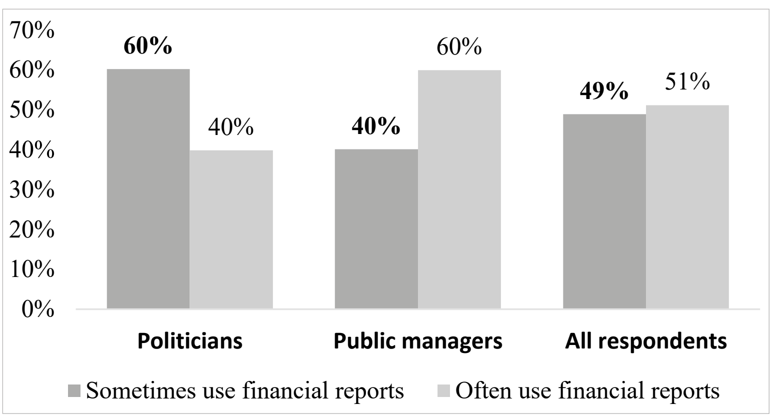
Figure 1. Use of PSFRs



Source: Authors' elaboration

Figure 2 shows that, in the overall sample, nearly half of the respondents sometimes use financial reports, while the remaining respondents use them regularly. In the sample of politicians, a larger proportion of respondents use financial reports occasionally, while among public managers, a greater number of respondents use them regularly Furthermore, additional tests using the chi-square test were conducted to determine whether there are differences in the use of financial reports. The results of the chi-square test (x2 = 120.88; df = 2) as well as the p-value ($p<0.01$) provide evidence that there is a difference in the frequency of using financial reports.

Figure 2. Frequency of use of PSFRs



Source: Authors' elaboration

To further validate the results showing differences in usage between politicians and public managers, a dependent variable was defined. Since this was a new measurement instrument, it was essential to test the reliability and validity of the scales used in the questionnaire. The reliability of the scales was tested using the Cronbach's alpha coefficient, and scales with a coefficient greater than 0.7 are considered reliable. Validity was tested by a combination of exploratory and confirmatory factor analysis on the particles used to measure the use and usefulness of the report. The split-half method was used. Exploratory factor analysis was conducted for half of the sample to determine construct and content validity, and the results of the exploratory factor analysis were further analysed for the other half of the sample to confirm the construct and convergent validity of the instrument used. If the average variance extracted (AVE) of the factor is greater than 0.5 and all factor saturations are significantly different from 0, convergent validity is confirmed (Fornell and Larcker, 1981). The sample was randomly divided into two parts. A factor analysis was conducted using the maximum likelihood method with oblique torsion. The first group of items asked about the use of financial reports and budget execution reports, while the second group of items related to the usefulness of financial reports and budget execution reports. Prior to factorization, the strength and significance of the associations between the items were tested. Bartlett's test for sphericity showed that the correlation matrix of the particles was not equal to the identity matrix (Pett et al., 2003). The Kaiser-Meyer-Olkin Measure of Sampling Adequacy or KMO value was 0.85, which was high enough to justify the application of factor analysis to the observed set of particles (Hair et al., 1998).

The number of factors was determined by a combination of parallel analysis and inspection of the particle content. The results of the parallel analysis showed that the observed particles were grouped into five factors, which explained 71% of the variability of the particles. Of the five factors extracted, one (the fifth) was determined by a single particle, so the number of factors was reduced to four and such a solution was analysed. In this way, the high percentage of variability in particles (66%) is still explained and the interpretability of the obtained factor structure is facilitated. Factor 1 consisted of particles examining the frequency of use of mandatory financial reports, therefore Factor 1 was named Frequency of use of financial reports. In this paper, the results for two factors are presented and the other factors are not addressed. Factor 2 consisted of particles that examined the frequency of use of budget execution reports, so Factor 2 was called Frequency of use of budget execution reports. The factorial solution obtained was tested on the second half of the sample. Confirmatory factor analysis confirmed the factor structure obtained through exploratory factor analysis. Adjustment measures showed that the proposed factor structure was not statistically different from the observed factor structure. The results of the confirmatory factor analysis are presented in Table 2. According to the table, the factor saturations of all particles are significantly different from zero and the AVE value, i.e. the value of the average variance extracted, is greater than 0.50 for factor 1 (0.54) and factor 2 (0.89), which according to Fornell and Larcker (1981) is evidence of the convergent validity of the measurement instrument. The Cronbach's alpha coefficient was 0.89 for factor 1 and 0.95 for factor 2, which confirms the reliability of the measurement instrument.

Table 2. Results of factor analysis

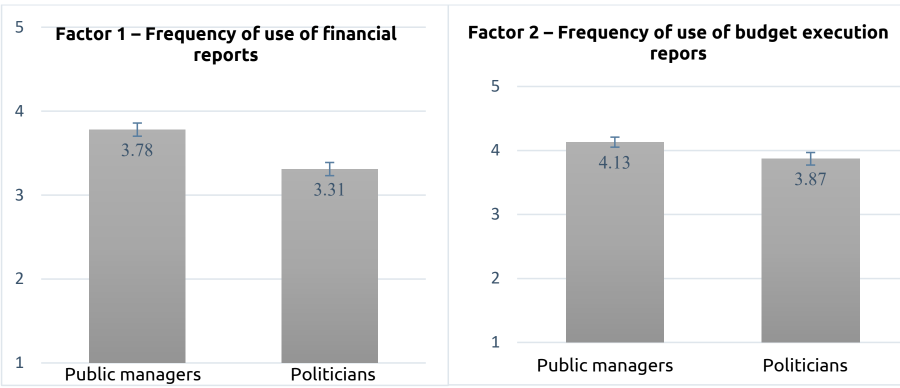
	Factor 1	**Factor 2**
Factor 1 – Frequency of use of financial reports	1	
Factor 2 – Frequency of use of budget execution reports	0.62	1
Cronbach α	0.89	0.95
AVE	0.54	0.89
Mean	3.57	4.01
Standard deviation	0.82	0.92

Source: Authors' elaboration

To test the difference, dependent variable was defined: The frequency of use of all financial reports, which was measured as the arithmetic mean of the responses to the questions on the frequency of use of each financial report on a five-point Likert scale. To test the difference in arithmetic means between two groups of users, Welch's t-test (for independent samples) was used, as differences in arithmetic mean are compared between two independent groups of subjects (Delacre et al., 2017). The results show that the two groups differ significantly in their use of financial reports. In the case of Factor 1 – Frequency of using financial reports, the t-test value was 8.48 (df= 780.11). This was confirmed at a significance level of 1%, where the p-value was less than 0.01. As can be seen in Figure 3, respondents in the sample of public managers reported using financial reports (factor 1) significantly more often, as the mean is 3.78 and the standard deviation is 0.78. For politicians, the arithmetic mean is lower and is 3.31, while the standard deviation is 0.79. A difference was also found for Factor 2 – Frequency of use of budget execution reports. The t-test value is 4.11 (df=747.76) and the p-value was less than 0.05. As can be seen in Figure 3, the same direction of difference was observed in the use of the budget execution report. Namely, from the figure below it can be confirmed that public managers use the budget execution reports more frequently then politicians.

The analysis results indicate that both groups of respondents frequently use financial reports and budget execution reports. This finding provides support for the first research question regarding whether managers and politicians utilize financial reports. These results are not in line with previous studies that have shown that financial reports are only used to a limited extent by politicians (Caruana and Faruggia, 2018; Jorge et al., 2019; Yamamoto, 2008). In addition, results in this study show that there is a difference in use between the two groups of respondents. Public managers use financial reports more frequently than politicians. These findings are in line with previous studies that have shown that there is a difference in the use of reports depending on the role of the respondents. That is politicians in leadership positions, and public managers in leadership positions who tend to use financial reports more frequently than for example, councilors (Faber and Budding, 2022; Jethon and Reichard, 2022; Rogošić, 2021). This results also provide evidence to support the Upper Echelons Theory. The findings are consistent with the assumptions of the Upper Echelons Theory, that the role of the respondents matters for the use of the reports. The findings confirm that the role of the respondents is one of the important characteristics when it comes to the use of financial reports.

Figure 3. The difference in the frequency of use of prescribled reports among different information users



Source: Authors' elaboration

4.4 What are the Reasons for Using PSRFs?

Questions about the reasons for use were asked in such a way that the respondents were offered 16 possible answers and they had to select the 3 most common reasons for using the PSFRs. The most common reason for using financial reports, cited by just over a quarter of respondents, was "to support financial decision-making." A similar proportion of respondents indicated that they use financial reports to "compare achieved results with previous periods," while others noted that they rely on them to "estimate the surplus/deficit of operations/activities." About one in five respondents mentioned using financial reports for purposes such as "cash flow analysis," "budget approval decisions," and "financial performance analysis." "In contrast, the least frequently cited reasons for using financial reports were "to determine changes in the value and volume of assets, liabilities, and own resources" and "to determine the responsibility of the individuals who compile financial reports," which were selected in only a small number of cases. The correlation between the reasons given for using the prescribed financial reports was also tested, but none of the correlation coefficients exceeded the value of r=-0.17, so these results are not presented in this paper. In other words, the reasons given were not grouped together, and the selection of individual respondents' choices depended largely on the individual respondent themselves.

We also examined the differences in the frequency of use of financial reports, with emphasis on the reasons for the use of financial reports by public managers and politicians. A series of chi-squares to analyse those differences were used and they are shown in Table 3. These results show that public managers use financial reports more than politicians in order "to estimate the surplus/deficit of operations" as well as "to analyse the cash flows of public sector entities". Public managers are more likely to use financial reports "to analyse the financial position of public sector entities" and "to analyse the financial performance of public sector entities". Public managers use financial reports more than politicians "as a support when making financial decisions".

The responses also show that politicians tend to use financial reports more "to determine the cost of "a particular program, project or activity". Politicians use financial reports "to determine the responsibility of the heads of public sector entities". Politicians are more likely than managers to use financial reports "to compare results achieved with other public sector entities" or "to compare actual financial results with the adopted budget". Politicians use financial reports more than public managers "when making decisions about budget approval and budget expenditure". No differences were found for the other reasons.

As part of the question about the reasons for using the PSFRs, respondents were also asked an open question to indicate whether there are other reasons for using the financial reports that were not included in the list of answers offered. In the case of politicians, some of the additional reasons given are: "analysing revenues and expenditures compared to prior periods", "analysing the financial reports for proposing amendments", i.e., "using the financial reports during debates and council meetings" and "for the purposes of budget realignment". Furthermore, politicians emphasize the use of financial reports to control and for establishing the legality of the public money spending as well as for transparency. The politicians explain that the financial reports are useful for preparing meetings and for applying for EU funds as well as for planning future projects. Some respondents from the public managers group pointed out that they use the financial reports for "revenue analysis and financial analysis and planning". While some respondents highlighted that they use the financial reports for expenditure control and when "planning a new budget for the next year, planning future investments and investing in new projects". Public managers pointed out that they use financial reports to monitor financial flows and compare realization, i.e. actual expenditure against planned expenditure. Like politicians, public managers also indicated that they use the financial reports for the control and evaluation of expenditure and for numerous analyses. Some public managers also gave the answer for the use of financial report as: "Legal obligation". These results answer the third research question as to what are the reasons for using financial reports.

Table 3. Differences in the reasons of using financial reports

Reasons for use	x^2	p	
To estimate the surplus / deficit of operations / activities	19.32	**[1]	Public managers > Politicians
For the analysis of cash flows	14.13	**	Public managers > Politicians
To analyse the financial position	9.77	**	Public managers > Politicians
To analyse the financial performance	9.95	**	Public managers > Politicians
As support when making financial decisions	7.14	**	Public managers > Politicians
In assessing the economy, efficiency and the effectiveness of operations	3.54	Not significant	Equally
To determine the changes in the value and volume of assets, liabilities and own resources	0	Not significant	Equally
To determine the costs of provided public services	0.75	Not significant	Equally
To assess the sources of funds, use and balance of current financial resources	1.3	Not significant	Equally
To compare the achieved results with previous periods	2.47	Not significant	Equally
To determine the responsibility of persons who compile financial reports	3.29	Not significant	Equally
To determine the costs of activity, project or particular program	5.69	**	Politicians > Public managers
To determine the responsibility of the heads of the public sector entities	5.89	**	Politicians > Public managers
To compare the actual financial results with the adopted budget	21.29	**	Politicians > Public managers
To compare the achieved results with other public sector entities	26.57	**	Politicians > Public managers
To make decision on approving the budget and budget expenditure	38.67	**	Politicians > Public managers

Source: Authors' elaboration

1 Significant.

The results of this study also suggest that the personal characteristics of the respondents influence the use of reports. These findings are in line with previous studies (Faber and Budding, 2022; Yamamoto, 2008). In general terms, public managers need timely and complete information for efficient decision-making, which is why they are likely to use financial reports for other purposes than politicians. This result of this study, unlike previous studies that have not distinguished between politicians and managers when it comes to the use of financial reports (Caruana and Faruggia, 2018; Yamamoto, 2008), provides evidence on the difference between politicians and public managers use. Their roles and responsibilities are not the same, and therefore the use of financial reports is also not likely to be the same.

5 Conclusion and Discussion

The results of this study demonstrate that managers and politicians are not only recipients of PSFRs but also active users of them. In fact, the findings show a high level of commitment to financial reports, with most respondents in the sample using the prescribed reports. The results of this study, however, confirm differences in the frequency of use of the prescribed financial reports. Politicians in the sample generally use financial reports less, and more than half of the respondents in this study answered that they only sometimes use financial reports. In the contrast, public managers responded that they use financial reports more frequently.

The results on the reasons for use also show a similar result. That is, PSFRs fulfil their basic purpose, as the most common reason for their use is “to assist in financial decision-making”. However, the study also shows that there are differences in the reasons for use between politicians and managers. While financial reports are primarily important to politicians for budgeting and budget execution and to determine costs and expenditures, they are important to public managers for analyzing financial performance and evaluating results as well as comparing results with previous periods. These results also indirectly lead to the conclusion that the budget is an expression of political priorities. This study also provides evidence to support the Upper Echelons Theory as the results confirmed that the role of the respondents is one of the important characteristics when it comes to the use of PSFRs.

Given that this research focused on politicians and managers—two groups that differ significantly in institutional context, goals, and accountability mechanisms—it is important to recognize that individual respondent characteristics may manifest differently across these roles and influence report usage. Since this study did not incorporate demographic indicators as factors affecting report use, the findings should be interpreted with caution. Future research could benefit from including such individual characteristics to offer deeper insights into the acceptance or rejection of Upper Echelons Theory.

The findings of this study lead to the significant conclusion that is relevant not only for Croatia but also contributes to the international academic and practical discourse. These results highlight the fundamental purpose of PSFRs and the factors that influence their utilization or lack thereof. Specifically, the results suggest that to enhance the management of public sector entities, it is essential to strike a balance between considering the preferences of PSFR users and ensuring the provision of accurate and high-quality data in reporting. Merely changing the accounting basis or implementing other reform processes does not guarantee that the information in these reports will be used more frequently.

This research also has several limitations. Firstly, the results of the study refer only to a specific country, namely the Republic of Croatia, which may limit generalizability. Furthermore, the use of a questionnaire as the only way to capture all the variables also represents a limitation of this work. One of the main disadvantages of using questionnaires is that respondents are implicitly assumed to have some knowledge of accounting information and financial reports (Van Helden and Reichard, 2019). In addition, surveys can lead to the encouragement of desirable behavior, i.e. respondents tend to give socially desirable answers (Van Helden, 2016).

To overcome these limitations, future research is recommended. While the study conducted in Croatia serves as a valuable case study for other countries, further comparative studies involving additional nations would yield even more insightful results. Specifically, countries with similar characteristics, particularly within the Southeast European region, could offer effective platforms for comparison.

Additionally, this study could be expanded by exploring the perspectives of other users of financial reports beyond politicians and public managers. Conducting interviews to gain further insights into how various users utilize financial reports and the extent to which these reports meet their specific needs would also be beneficial. Such research could lead to new conclusions about the complex dynamics of financial report usage and the various factors influencing that usage.

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