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BUDGETARY ACCOUNTING – DESIRABLE DIRECTIONS FOR DEVELOPMENT

Introduction

Budgetary accounting in Poland is characterised by certain unique principles which should be applied to valuation of assets and disclosure of information about business dealings and transactions in financial statements, budgetary reports and other reports. „Budgetary accounting” should be understood as the accounting carried out by the government, local self-governments and their organisational units, which is intended to provide data for the analysis and control of state or local government budget execution, as well as financial plans and the property situation of specific entities in the public finance sector¹. The personal scope of budgetary accounting is limited to public authorities, including governmental administration, state control bodies, law enforcement agencies, courts of law and tribunals, local self-government units and their associations, budgetary entities, local self-government budgetary establishments and designated state funds. The subject of budgetary accounting, on a macro scale, is a state budget and local self-government budgets, and on a micro scale – the property and financial situation, changes in net assets, liabilities, as well as financial performance of budgetary entities and establishments².

The subjects of budgetary accounting, as listed above, belong to the public finance sector and are the undertakings defined in art. 2 of the Accounting Act. However, not all domestic accounting law regulations apply to them. Under article 80 of the Accounting Act, these entities do not apply the provisions of its Chapter 5 – „Financial statements”, Chapter 6 – „Consolidated financial statements of a capital group” and Chapter 7 – „Audit and publication of financial

¹ See: K. Winiarska, M. Kaczurak-Kozak: *Rachunkowość budżetowa*. Oficyna a Wolters Kluwer business, Kraków 2007, s. 43-44.

² See: A. Zysnarska: *Rachunkowość budżetu, jednostek budżetowych i samorządowych zakładów budżetowych*. ODDK, Gdańsk 2011, s. 70.

statements". Special accounting principles, including charts of accounts, as well as the preparation and circulation of financial statements by these entities, are governed by a separate executive regulation to the Law on Public Finances³.

Increased autonomy of basic entities operating in the public finance sector and various activities connected with so-called new public management, including a public private partnership concept as an option for the provision of public services, are important reasons for the changes to be introduced in the theory and practice of budgetary accounting.

The paper presents the desirable directions for the development of budgetary accounting, based on the analysis of the selected aspects of accounting policies followed by typical entities from the public finance sector, i.e. state and self-government budgetary entities and self-government budgetary establishments.

1. Specific scope of budgetary accounting

Under the Accounting Act, typical entities from the public finance sector should hold documentation describing, in the Polish language, the adopted accounting policies, in particular relating to⁴:

- a) determination of the financial year and the reporting periods comprised therein,
- b) methods for the valuation of assets and liabilities, as well as determination of the financial result,
- c) the manner of keeping the account books, at least including:
 - **the internal chart of accounts**, specifying general ledger accounts, the adopted principles for the classification of events, the principles for keeping subsidiary ledger accounts and their links with general ledger accounts;
 - a list of account books, and in case they are computerised – a list of data files comprising account books on electronic data carriers, indicating their structure, mutual links and their functions in the entire structure of account books and data processing operations;

³ It concerns the Ordinance of the Ministry of Finance dated 5 July 2010 on the specific principles of accounting and charts of accounts for the state budget, budgets of local self-government units, budgetary entities, self-government budgetary establishments, designated state funds and state budgetary entities domiciled outside the territory of Poland, Journal of Laws No. 128, item 861, as amended.

⁴ See: Accounting Act of 29 September 1994, 2002 Journal of Laws, No. 76 item 694, as amended, art. 10 par. 1.

- a description of the data processing system, and in case of computerised account books – a description of a computer system, including a list of programmes, procedures or functions, depending on the software structure, together with a description of algorithms and parameters, as well as data protection principles, including, in particular, methods for securing access to data and the data processing system, as well as a description of the software version and its start-up date;
- d) a system for protecting data and data files, including accounting documents, account books and other documents underlying the records made therein.

The presented scope of accounting policies adopted by economic entities shows that such policies are sets of principles governing the operation of an undertaking, and the internal chart of accounts included in these documents is a very sensitive area as its contents and structure determine not only the book-keeping method but also the quality of data provided by accounting systems to various users of such data⁵.

In case when an accounting policy is established by budgetary entities and establishments, attention should be drawn to article 40 of the Law on Public Finances⁶. On one hand, it emphasises the fact that such undertakings keep their books and, consequently, they establish accounting policies, taking into consideration the Accounting Act. On the other hand, however, it indicates that their internal charts of accounts are specified by the Minister of Finance, taking into consideration the specific principles of accounting related to budget execution records (including the performance budget) and the valuation and recording of specific assets and liabilities.

Furthermore, the Ordinance of the Ministry of Finance, which is an executive regulation to the Law on Public Finances, assumes that⁷:

- accounts included in charts of accounts should be treated as a standard number of accounts, which may be reduced only by removing the accounts designed for booking of economic transactions which do not occur in a given entity or extended by adding the accounts whose economic contents are compliant with appropriate accounts from the internal chart;
- charts of accounts for budgets of local self-government units may be extended by adding, when and as needed, appropriate accounts to the charts of accounts of budgetary entities and establishments;

⁵ See: D. Adamek-Hyska: *Zakładowy plan kont.*, „Finanse Publiczne” 2010, No. 4, Presscom Sp. z o.o., Wrocław, s. 12.

⁶ Law on Public Finances dated 27 August 2009, Journal of Laws 157, item 1240, as amended, art. 40.

⁷ The Ordinance of the Ministry of Finance dated 5 July 2010 on the specific principles of accounting and charts of accounts for the state budget ..., op. cit., § 15 par. 1.

- internal charts of accounts should take into consideration the decisions made by a decision-maker for the budgetary part or by the management of a local self-government unit, concerning the grouping of economic transactions which are relevant for the type of conducted activities;
- internal charts of accounts should enable the preparation of financial statements, budgetary reports and other reports.

The foregoing provisions from the Law on Public Finances, relating to the creation of internal charts of accounts in budgetary entities and establishments are an example of the limitations imposed on these undertakings concerning their right to create their own accounting policies, as ensured by the domestic and international accounting regulations and practices.

Table 1, taking into consideration the current legal regulations, shows the basic specific features of budgetary accounting.

Table 1

Selected specific principles of accounting established for the state budget, budgets of local self-government units, budgetary entities and establishments

No.	Specification	Comments
1	2	3
1.	Cash basis for recognition of budgetary revenue and expenditure	Revenue and expenditure of the state budget, EU funds budget, budgets of local self-government units and budgetary entities are recognised at the moment of payment, irrespective of the yearly budget they refer to
2.	Planning and recording of funds for current year and future year expenditure	Funds for expenditure (and costs in budgetary establishments) are the value of contracts signed, decisions and other arrangements made, the implementation of which will lead to budgetary expenditure in the current year or future years
3.	Definition of fixed assets	Fixed assets are assets indicated in the Accounting Act, including fixed assets which are owned by the State Treasury or a local self-government unit, received for administration or use and designed for the entity's needs
4.	Principles for amortisation of fixed assets	Depreciation or amortisation charges are based on principles adopted by an entity, in accordance with the Accounting Act. However, when establishing the principles for depreciation or amortisation, the entity may adopt the rates specified in the Corporate Income Tax Act or the rates established by a decision-maker of the budgetary part or the management of a local self-government unit
5.	Recognition of interest on receivables and payables in account books	Interest on outstanding receivables or payables is recognised in account books at the moment of payment but not later than at the end of every quarter
6.	Valuation of receivables, payables and other assets and liabilities expressed in foreign currencies	Receivables, payables and other assets and liabilities in foreign currencies are valued not later than at the end of the quarter, according to the principles effective as of the balance-sheet date
7.	Valuation of assets of entities under bankruptcy	Entities under bankruptcy value their assets according to the principles established for entities which continue to operate

Table 1 cont.

1	2	3
8.	Standard charts of accounts for state budget records, budgets of local self-government units and budgetary entities and establishments	Charts of accounts used for budget execution records and used by budgetary entities and establishments are specified. However, the principles for operation of many accounts in budgetary entities and establishments are quite different from the ones which operate in accounting practices of commercial entities
9.	Principles for preparation of financial statements	Budgetary entities and establishments prepare balance-sheets, profit and loss accounts and statements of changes in equity as of the closing date of account books according to patterns established in executive regulations to the Law on Public Finances
10.	Principles for preparation of budgetary reports	Budgetary entities and establishments are obliged to prepare and submit a number of budgetary reports the templates, deadlines and recipients of which are specified in the executive regulations to the Law on Public Finances

Source: Based on: The Ordinance of the Ministry of Finance dated 5 July 2010 on the specific principles of accounting and charts of accounts for the state budget..., op. cit.

It should be noted that the amendments to the Ordinance, introduced almost every year, are mostly aimed at full implementation of the regulations from the Law on Public Finances and, unfortunately, seem to be just baby steps taken towards the adjustment of these entities' accounting solutions to the accounting law. Here, an observation made by W. Nowak, who believes that the changes made in the recent years in accounting of public sector entities are introduced mainly as a consequence of the changes in the public finance law, so these are just adaptation changes of a contingent character, induced by statutory manifestations of the changes in the size and strategies of the public finance sector, seems to be well-justified again⁸. Specific accounting principles of typical entities from the public finance sector, as listed in Table 1, are designed to emphasise and take into consideration the specific character of activities carried out by such undertakings. These principles, however, should only supplement the basic accounting principles set forth in the Accounting Act, instead of replacing them completely. Therefore, in practical terms, the specific accounting principles set forth in the executive regulations to the Law on Public Finances, have a significant impact and restrict the freedom of managers at the helm of budgetary entities and establishments when choosing their accounting policies. These undertakings cannot decide, at their own discretion, about such issues as a record keeping method for their operating expenses, a variant of profit and loss account, a record keeping method for detailed accounts entered into the general ledger or the valuation of short- and long-term investments.

⁸ W.A. Nowak: *Kontyngencyjne modele rozwoju rachunkowości sektora finansów publicznych. W: System rachunkowości w nurcie wyzwań XXI w.* Red. E. Śnieżek. ODDK, Gdańsk 2008, s. 113.

In addition to that, in many respects, the specific principles for accounting of typical entities from the public finance sector are found to violate the statutory accounting principles, in particular, the principle of prudence, the matching principle, the consistence principle and the going concern principle.

2. The most important directions for development of budgetary accounting

Based on the analysis of the legal grounds for budgetary accounting, it may be concluded that there is a clear need to change it. For a number of years now the inconsistency between the law on public finances and the accounting law has continuously blurred the picture and, as a result, made it impossible to compare the financial and property situations of budgetary entities and establishments. Therefore, it may be stated that the modification of budgetary accounting should, first of all, move it towards:

1. The harmonisation of budgetary accounting in Poland with the International Public Sector Accounting Standards (IPSAS).
2. The unification of accounting principles followed by budgetary entities and establishments with financial reporting of business entities.
3. Simplification of budgetary accounting.

The most important directions for development of budgetary accounting, as indicated above, will certainly contribute, for example, to the provision of 'better quality' financial information on the performance of budgetary entities and establishments, better transparency of the presented data and comparability among public entities, as well as between public entities and entrepreneurs.

2.1. Harmonisation of budgetary accounting with the International Public Sector Accounting Standards

A. Jarugowa defines „harmonisation” as an intention towards the similarity of choices from among alternative solutions in accounting⁹. This author also states that the harmonisation of accounting principles, on regional and international scales, is a process of increasing the comparability of financial statements, by introducing a consistent set of patterns (standards), based on common assumptions and concepts, with the defined acceptable differences for their practi-

⁹ See: *Międzynarodowe Standardy Sprawozdawczości Finansowej a ustawa o rachunkowości – podobieństwa i różnice*. Red. A. Jarugowa. Stowarzyszenie Księgowych w Polsce, Warszawa 2008, s. 12.

cal use in various countries¹⁰. The term of „harmonisation” is strictly connected with „standardisation”. Standardisation means a process of adopting identical or similar accounting practices (patterns) by parties concerned¹¹. Such standards are aimed at facilitating transactions carried out globally by ensuring the comparability and transparency of financial statements prepared by companies from various countries, with various cultural traditions, social and economic conditions and legal systems¹².

The harmonisation of public sector accounting started already in 1996. The effects of this process include, but are not limited to, the International Public Sector Accounting Standards. They were established by the International Federation of Accountants (IFAC) that made an attempt to achieve the convergence between international accounting standards and international financial reporting standards, which were set up by the International Accounting Standards Committee for the specific needs of the public sector. Within the structure of the International Federation of Accountants, the Public Sector Committee (PSC) was created, with the task of coordinating principles and requirements worldwide in the area of financial reporting, accounting and auditing of public sector entities¹³. In 2004 the International Accounting Standards Committee and the Public Sector Committee approved their new name – International Public Sector Accounting Standards Board (IPSASB). Until June 2012, this body developed and published 32 standards, the contents of which are only available on the website of www.ifac.org.

It should be added that the harmonisation of public sector accounting standards does not reach as far as the international accounting standards established for the private sector, as at present European countries have no legal obligation to adopt them. They should serve, however, as a useful and basic tool when creating regulations for public sector accounting in individual countries. As emphasised by K. Winiarska, the International Public Sector Accounting Standards Board promotes the adoption of the standards established by this Board or, at least, the harmonisation of domestic guidelines with these standards¹⁴. The situation is likely to change considerably in 2013 after the publication of a report to be prepared by EUROSTAT, which was asked by the European Commission to

¹⁰ See: A. Jarugowa: *Międzynarodowe regulacje rachunkowości*. C.H. Beck, Warszawa 2002, s. 3.

¹¹ See: S.T. Surdykowski: *Rachunkowość międzynarodowa*. Kantor Wydawniczy Zakamycze, Kraków 1999, s. 73.

¹² See: A. Jarugowa: *Perspektywy rozwoju rachunkowości w świetle konwergencji Międzynarodowych Standardów Sprawozdawczości Finansowej*. W: *Rachunkowość wczoraj, dziś i jutro*. Stowarzyszenie Księgowych w Polsce, Warszawa 2007, s. 532.

¹³ See: K. Winiarska, M. Kaczurak-Kozak: *Op. cit.*, s. 34.

¹⁴ See: *Ibidem*, s. 35.

evaluate the usefulness of the International Public Sector Accounting Standards. EUROSTAT examined a few options:

- full implementation of these standards,
- their partial implementation, or
- implementation of so-called European Public Sector Accounting Standards.

The Polish legal regulations governing the principles, according to which the basic entities from the public finance sector should operate and manage their finances require that charts of accounts of the state budget, budgets of local self-government units, budgetary entities and establishments comply with the principles set forth in the Accounting Act and the international standards¹⁵. They do not specify, however, which international standards should apply: the standards established by the International Accounting Standards Board and designed for entities from the private sector or the standards established by the International Public Sector Accounting Standards Board, designed mainly for governments, self-governments and basic organisational and legal forms of undertakings from the public sector? It may seem to concern only the International Public Sector Accounting Standards but the Accounting Act that public sector entities are obliged to adhere to states in art. 10 that in any matters not regulated in this Act and the Polish domestic accounting standards, undertakings may apply the international accounting standards (and international financial reporting standards)¹⁶. Therefore, according to the current legislation, the international accounting standards (and the international financial reporting standards) seem more applicable to public sector entities than the international public sector accounting standards. The latter ones have even not been translated into Polish yet, and they are still not very popular either in theory or in practice. In addition, no research teams, subcommittees of the National Accounting Standards Committee or consultation teams have been created to identify the specific problems faced by public sector institutions and organisations. All this creates strong barriers to the harmonisation of public sector accounting and the knowledge and use of the international public sector accounting standards. The benefits from the implementation of the International Public Sector Accounting Standards are invaluable and include, in particular¹⁷:

- better quality of financial reporting, including the scope of additional information,

¹⁵ See: Law on Public Finances..., op. cit., art. 40.

¹⁶ See: The Accounting Act..., op. cit., art. 10.

¹⁷ See: P. Zaczyński: *Międzynarodowe Standardy Rachunkowości Sektora Publicznego*. „Finanse Publiczne” 2012, No. 7. Wydawnictwo Presscom, Wrocław, s. 53-54.

- the unification of accounting principles of all budgetary entities and establishments, and
- better specification of the principles for valuation of fixed assets acquired for free or at symbolic costs at a fair value as of the date of acquisition.

2.2. The unification between financial reporting principles used by budgetary entities and establishments and financial reporting used by business entities

In budgetary entities and establishments, financial reporting is an obligatory element of the accounting system. Financial statements are prepared in order to provide the information about an entity's financial condition, its financial performance and cash flows, which is useful for a wide group of recipients when taking their business decisions¹⁸. However, the Public Sector Committee (PSC), and since 2004 the International Public Sector Accounting Standards Board (IP-SASB)¹⁹, have taken into account four aspects of the information needs to be fulfilled by public sector financial reporting²⁰:

- trust and compliance with the law and acts,
- the state of public finances,
- achievements made through the use of public resources,
- the impact of self-government activities on the economy and the evaluation of directions and priorities for public expenditure.

Since 2006, accounting of typical undertakings from the public sector has shown sudden changes in the area of financial statements. Before the end of 2005, these undertakings were obliged to issue balance-sheets only. Since 2006, however, financial statements have had to include also profit and loss accounts for the given office and its statement of changes in equity. Such an evolution in financial statements seems to be the best illustration of the property and financial situation of public undertakings, their performance figures and movements in their equity. Nevertheless, even in this respect, the reporting carried out by budgetary entities and establishments differs from the financial reporting of other types of undertakings (Table 2).

¹⁸ See: Międzynarodowy Standard Rachunkowości 1 Prezentacja sprawozdań finansowych. W: Międzynarodowe Standardy Sprawozdawczości Finansowej (2011), Część A, Założenia koncepcyjne i wymogi, Stowarzyszenie Księgowych w Polsce, Warszawa, s. A413.

¹⁹ I.e. a separate body within the structures of the International Federation of Accountants.

²⁰ See: E. Hellich: *Podstawowe problemy rachunkowości sektora finansów publicznych*. Oficyna Wydawnicza SGH, Warszawa 2011, s. 218-219.

Table 2

Financial reporting of budgetary entities and establishments versus reporting of other undertakings

No.	Specification	Budgetary entities and establishments	Other undertakings
1.	Legal grounds	Executive regulation to the Law on Public Finances.	The Accounting Act
2.	Scope of financial statements	A balance-sheet A profit and loss account A statement of changes in equity	A balance-sheet A profit and loss account Additional information Additionally, entities whose financial statements are audited by statutory auditors prepare: – a cash flow statement – a statement of changes in equity
3.	Presentation of data in financial statements	<ol style="list-style-type: none"> 1. The information included in financial statements can be more detailed than it is defined in appendices to the executive regulation to the Law on Public Finances. 2. Figures are shown in zlotys and grosz only. 3. Managers of budgetary entities and establishments submit their financial statements to higher level budget decision makers or management boards of local self-government entities by 31 March of the following year. 4. No legal regulations about the approval of financial statements 	<ol style="list-style-type: none"> 1. The information included in financial statements can be more detailed than it is defined in Appendix 1 to the Accounting Act. The information included in financial statements may be presented in the scope specified in Appendix 1 to the Accounting Act, limiting the data presentation to lines marked with letters and Roman numbers (so-called simplified financial statements). Such financial statements may be prepared only by entities which have not generated two out of the three values specified by the Accounting Act in the financial year for which the financial statements are prepared and in the previous year. 2. Figures may be rounded up to the nearest thousand zlotys, if this does not distort the view of the entity as presented in the statements. 3. A manager of an entity submits the financial statements to an appropriate authority, under the effective legal regulations, provisions of the entity's statute or deed. 4. Annual financial statements of an entity are subject to approval by an approving body within 6 months of the balance-sheet date
4.	Profit and loss account variant	Single-step variant only	Single step or multi step variants

Source: Based on: the Ordinance of the Ministry of Finance dated 5 July 2010 on the specific principles of accounting and charts of accounts for the state budget..., op. cit., § 17-26 and the Accounting Act..., op. cit., art. 45-53.

Table 2 presents only the principal differences between financial reporting of budgetary entities and establishments and financial reporting of other undertakings. However, there are a lot more differences, which can be found by analysing, in detail, the specific elements of financial statements. Such discrepancies have an adverse effect on any comparability of the property and financial situations, as well as performance figures, between typical entities operating in the public sphere and businesses. Besides, it should be noted that these discrepancies have also a negative impact on accuracy and reliability of data presented by local self-government entities in their consolidated balance-sheets. A consolidated balance-sheet of a given local self-government entity covers, in most cases, the following undertakings: the local self-government entity, self-government budgetary entities (including the office), self-government budgetary establishments, independent public (self-government) health care units, self-government cultural institutions (e.g. public libraries, theatres, museums), controlled companies or partnerships²¹, co-controlled companies or partnerships²² and companies or partnerships under substantial influence (e.g. community partnerships, special purpose vehicles established under public private partnership)²³.

As a principle, in case of consolidated financial statements, the entities covered by these statements should use uniform principles to prepare balance-sheets for consolidation. In case of a consolidated balance-sheet of a local self-government unit, the undertakings covered by this balance-sheet use various ac-

²¹ **Controlling** another undertaking shall be understood as the ability of an undertaking to manage the financial and operating policy of another undertaking in order to derive economic benefits from its operations. It should also be added that such a definition of controlling is not tantamount to controlling as defined in the Law on Public Finances. The Law on Public Finances authorises appropriate bodies of a local self-government entity (decision-making bodies) to establish, transform, wind up, provide with assets, finance, appoint and dismiss managers of entities which carry out public tasks entrusted to them. See: The Accounting Act of 29 September 1994..., op. cit., art. 3, par. 1, point 34.

²² **Co-controlling** another undertaking shall be understood as the ability of a shareholder of a co-controlled undertaking on a par with other shareholders, under the principles set forth in an agreement concluded between these shareholders, company deed or statute, to manage the financial and operating policy of another undertaking in order to derive common economic benefits from its operations. See: Ibidem, point 35.

²³ **Substantial influence** over another undertaking refers to the ability of an undertaking to influence, without any characteristics of controlling or co-controlling, the financial and operating policy of another undertaking, in particular by:

- taking part in decision making about the distribution of its profits or coverage of its losses,
- being a member of a managerial, supervisory or administration body,
- carrying out significant transactions with this undertaking,
- giving access to technical information with a significant importance for its operations to this undertaking,
- having a possibility to replace members of managerial, supervisory or administration bodies.

See: Ibidem, point 36.

counting principles and, consequently, various principles to prepare their balance-sheets, i.e. part of them (the local self-government unit itself, as well as self-government budgetary entities and establishments) use specific principles, set forth in the executive regulations to the Law on Public Finances, while other undertakings (self-government legal persons and partnerships in which the self-government unit has its shares) use the principles which are specified in the Accounting Act only. Therefore, the local self-government unit should obligatorily carry out the necessary transformations, to adjust the various accounting principles used by the undertakings covered by consolidation to the accounting principles used by the controlling undertaking and indicate this fact in the values of the adjustments made. In practice, however, in local self-governments there are often cases when a controlling undertaking decides not to carry out the transformations, explaining that such transformations are either impossible to carry out or they would harm the transparency of a consolidated balance-sheet. Such cases are the best reason justifying an urgent need for the unification of financial reporting principles used by budgetary entities and establishments, based on the provisions of the Accounting Act.

2.3. Simplification of budgetary reporting

Budgetary entities and establishments, in addition to the preparation of general purpose financial statements, are also obliged to prepare budgetary reports, which are mainly aimed at providing information about the processes of collecting public income and revenue, spending public funds, meeting the lending needs, taking up the liabilities which engage public funds and managing public funds and debt, and then submit these reports to appropriate public. For several dozen years now, budgetary reporting has been an important generator of information sets in the public finance sector. The emphasis is laid here, in particular, on the provision of synthetic data about the progress in budget execution and obtained results, as well as financial plans, the status and structure of property held by the entities from the public sphere, resulting from correctly kept account books, taking into consideration the budgetary classification rules. Just like in case of financial statements, these reports are based on reliable and complete account books, for reporting periods which are clearly defined in the legal regulations, in the amounts accruing from the beginning of the year to the end of the reporting period. T. Kiziukiewicz stresses the fact that budgetary reports „[...] provide the information which is necessary to make decisions, follow up on them and to check whether budgetary funds are spent in a proper way”²⁴. Budg-

²⁴ *Rachunkowość w jednostkach sektora finansów publicznych*. Red. T. Kiziukiewicz. Difin, Warszawa 2006, s. 444.

etary reporting can be referred to as the key source of information about the execution of (state and local self-government) budgets and their compliance with the effective law, which makes it an essential tool in public finance management. Individual budgetary reports are also the basic database for reports on budget execution, which are the main documents for the legitimisation of activities carried out by bodies responsible for budget execution, i.e. the Council of Ministers for the state budget execution and management bodies of local self-government undertakings for self-governmental budgets.

Frequent amendments to the public finance law impose an increasing number of new obligations connected with preparation of budgetary reports on public finance entities. An obligation to prepare budgetary reports stems from art. 41 of the Law on Public Finances, which includes the delegation for the Minister of Finance to issue executive regulations– having consulted the President of the Central Statistical Office on the principles for preparation of budgetary reports. At present, budgetary reporting is quite comprehensive, which results from the complexity of issues that undertakings from the public finance sector deal with, a varied scope of their operations in various organisational and legal forms. Since 2010, there have been three legal regulations which have set forth the specific principles for preparation and submission of various budgetary reports (Table 3).

Table 3

Legal regulations for budgetary reporting

No.	Legal regulation	Brief description
1.	Ordinance of the Minister of Finance dated 3 February 2010 on budgetary reporting, 2010 Journal of Laws no. 20 item 103	The Ordinance sets forth the specific principles of basic budgetary reporting on the execution of the state budget and budgets of local self-government units. Its scope covers all undertakings belonging to the public finance sector
2.	Ordinance of the Minister of Finance dated 4 March 2010 on reports on financial transactions of public finance sector entities, 2010 Journal of Laws no. 43 item 247	The Ordinance sets forth the specific principles of budgetary reporting on financial transactions, performing, first of all, the statistical function
3.	Ordinance of the Minister of Finance dated 28 December 2011 on performance budget reporting, 2011 Journal of Laws No. 298, item 1766	The Ordinance sets forth the specific principles of performance budget reporting. Consequently its scope covers only state organisational units

Source: Based on: Ordinance of the Minister of Finance dated 3 February 2010 on budgetary reporting, 2010 Journal of Laws no. 20 item 103, Ordinance of the Minister of Finance dated 4 March 2010 on reports on financial transactions of public finance sector entities, 2010 Journal of Laws no. 43 item 247 and Ordinance of the Minister of Finance dated 28 December 2011 on performance budget reporting, 2011 Journal of Laws No. 298, item 1766.

On the background of the legal regulations specified in Table 3, it may be assumed that „budgetary reporting” should now be understood in broad or narrow terms (Figure 1).

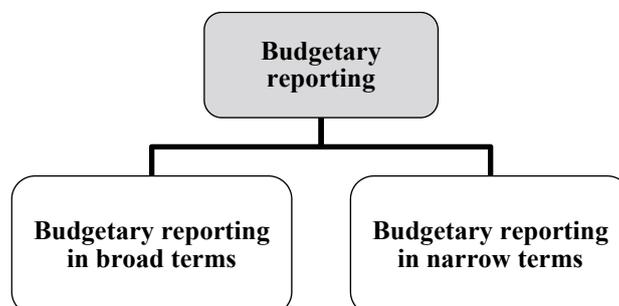


Figure 1. Budgetary reporting of public finance sector units

Source: Author's own elaboration.

In broad terms, „budgetary reporting” refers to all possible reports issued on the basis of the three executive regulations to the Law on Public Finances listed in Table 3. Therefore, broadly understood budgetary reporting will include basic budgetary reports, reports on financial operations of public finance sector units and performance reports.

In narrow terms, however, the term of „budgetary accounting” may refer exclusively to budgetary reports based on the principles set forth in the first executive regulation to the Law on Public Finances, as given in Table 3. It should also be mentioned that in all the legal acts governing various personal and material scopes of budgetary reports, legislators specify special principles, together with more or less detailed instructions on how to prepare every report²⁵.

Based on the analysis of the specific legal acts listed in Table 3, the following observations may be made:

- since 2010, the general changes introduced into budgetary reports have resulted from changes in the organisation of the public finance sector; that is why, some reporting requirements, for example, the ones connected with EU fund budgets and performance budgets have been added;

²⁵ In the Ordinance of the Minister of Finance dated 3 February 2010 on budgetary reporting, the instructions on how to prepare budgetary reports are given in appendices nos. 37-41. In the Ordinance of the Minister of Finance dated 4 March 2010 on reports of public finance entities on financial transactions, report preparation guidelines are given in Appendix 9. In the Ordinance of the Minister of Finance dated 28 December 2011 on performance budget reporting, specific principles for preparation of reports constitute the basic part of this Ordinance.

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- the key recipients of budgetary reports are bodies which supervise report issuers as well as external control authorities (e.g. regional accounting chambers or the Supreme Chamber of Control) and the Central Statistical Office;
 - the main qualitative features of budgetary reports should include usefulness, accurate presentation, comprehensibility, comparability, verifiability and timeliness;
 - after a general review of the material scope of budgetary reports, a conclusion may be drawn that they are based on the following underlying assumptions: the principle of full disclosure and transparency of public finance, the cash basis and the accrual principle;
 - transparency of public finance management is one of the guarantees of the constitutional right to information about activities of public authorities, as well as individuals who perform public functions; this principle ensures that e.g. collective data on public finance is made publicly available and public access is given to annual budgetary reports on finances and operations of organisational units from the public finance sector;
 - in the Law on Public Finances, the principle of transparency is directly linked to the obligation of using normative divisions of budgetary classifications, in particular, detailed classification of budgetary expenditure, as well as clarity and comparability of budgetary reports;
 - in budgetary reporting, as well as accounting of typical undertakings from the public finance sector (i.e. budgetary entities) an essential role is still played by the cash basis; according to this concept, only such budgetary income which has actually come into bank accounts in the given budgetary year is entered into revenue accounts and then presented in budgetary reports, no matter which period it refers to, while budgetary expenditure is regarded as incurred at the moment when a bank account is credited;
 - the scope of applications of the accrual principle in budgetary reporting is very wide;
 - no matter which undertaking from the public sector prepares budgetary reports, the substantive scope of budgetary reporting should serve as the determinant of specific solutions included in their accounting policies, taking into consideration, first of all, the use of budgetary classification, classification of structural expenditure, performance budgeting or the use of EU funds.

It should be noted that the methods of presentation of income, expenditure, costs, revenue, receivables and payables in specific budgetary reports are quite varied and chaotic, and the same information is presented in a few reports at the same time. Therefore, it seems that budgetary reporting needs formal and substantive changes in this respect.

An important direction for development in this area are implemented computer systems for collecting and transferring data from budgetary reports. At the state budget level, the computer system for budgetary reporting is mandatory for all state budget entities, whereas at the local self-government level, a local self-government entity and its organisational units decide which computer system to use for their budgetary reporting. In practice, reporting information is generated in many ways, sometimes data is even transferred manually between an entity's financial and accounting system and electronic versions of appropriate budgetary reports. Budgetary reporting computer systems are the basic, current and future, function used by public entities. They enable more detailed control of budgetary data which is provided by entities, reduce workload connected with fulfilment of reporting responsibilities, eliminate the obligation to carry out double reporting, facilitate the development of a homogenous electronic data exchange system to be used for budgets of all entities from specific public finance sub-sectors, to the extent required. Therefore an important way forward for budgetary reporting should be mandatory implementation of such computer systems in the self-government sub-sector.

BUDGETARY ACCOUNTING – DESIRABLE DIRECTIONS FOR DEVELOPMENT

Summary

Budgetary reporting is characterised by certain determinants, related to reporting itself and communication processes, as well as the specific character of the public sector. Budgetary reporting practice is regulated in a number of legal acts, which has adverse impact on the quality of data provided by such reporting. That is why, the three most urgent directions for development outlined in the paper (harmonisation of budgetary reporting in Poland with the International Public Sector Accounting Standards, unification of financial reporting principles of budgetary entities and establishments with financial reporting of business entities, and simplification of budgetary reporting) result from the need to provide the general public with useful information which can serve as the basis for accountability of individuals who carry out management over the public sector and for better allocation of resources and decision-making, in particular in the long-term perspective. It should be noted that the suggested ways forward are presented in a very synthetic way, but they address the most pressing issues related to budgetary accounting modernisation (or modification).