

How do public sector accounting practitioners perceive faithful representation of financial statements? Evidence from Poland

Jak praktycy rachunkowości sektora publicznego postrzegają wierną prezentację w sprawozdaniach finansowych? Doświadczenia z Polski

ALEKSANDRA SZEWIECZEK*, EWA WANDA MARUSZEWSKA**,
MARZENA STROJEK-FILUS***, DOROTA ADAMEK-HYSKA****


Received: 29.04.2023 – Revised: 23.10.2023 – Accepted: 3.11.2023


Abstract


Purpose: The purpose of the article is to expand the discussion on the truth and fairness concept and faithful representation in financial statements, and to investigate how accounting practitioners perceive the qualitative characteristics of faithful representation.


Methodology/approach: We conducted a questionnaire survey of public sector accounting practitioners.

Findings: The perceptions of faithful representation are based on the International Federation of Accountants' and International Accounting Standards Board's conceptualizations of this attribute and the applicable legal regulations. In the opinion of accounting practitioners, faithful representation signifies that financial statements disclose information that has been positively evaluated by control and audit authorities. Effectively, the accuracy of financial statements depends on the quality of accounting law in the public sector and the control process. The respondents knew and understood principle-based accounting but were more concerned with rule-based regulations.

* Dr Aleksandra Szewieczek, University of Economics in Katowice, Faculty of Finance, Department of Accounting,  <https://orcid.org/0000-0002-2408-0856>, aleksandra.szewieczek@uekat.pl

** Dr hab. Ewa Wanda Maruszevska, prof. UE, University of Economics in Katowice, Faculty of Finance, Department of Business Informatics and International Accounting,  <https://orcid.org/0000-0003-0461-4133>, ewa.maruszewska@uekat.pl

*** Dr hab. Marzena Strojek-Filus, prof. UE, University of Economics in Katowice, Faculty of Finance, Department of Accounting,  <http://orcid.org/0000-0001-7073-9191>, marzena.strojek-filus@uekat.pl

**** Dr Dorota Adamek-Hyska, University of Economics in Katowice, Faculty of Finance, Department of Accounting,  <http://orcid.org/0000-0001-7134-6947>, dorota.adamek-hyska@uekat.pl

Research limitations/implications: The limitation of our study is the sample size, which only permitted an analysis of qualitative variables. The research is a pilot study and will be extended in future work.

Originality/value: In Poland, a country governed by a code of law, the perception of faithful representation is oriented toward precise accounting and is based on legitimization by control and audit authorities demanding high-quality accounting legislation. This study confirms the importance of harmonizing accounting law in Poland. Principles-based standardization in the public sector should replace the existing detailed, technical legislature.

Keywords: public sector accounting, faithful representation, truth and fairness concept, financial statement, rule-based accounting.

Streszczenie

Cel: Celem artykułu jest poszerzenie dyskusji dotyczącej koncepcji jasnego i rzetelnego (uczciwego) obrazu i wiernej prezentacji w sprawozdawczości finansowej oraz zbadanie, jak praktycy rachunkowości postrzegają cechę jakościową sprawozdań finansowych, tj. rzetelność informacji.

Metoda/podejście badawcze: Badania ankietowe praktyków rachunkowości w sektorze publicznym w Polsce.

Wyniki: Postrzeganie wiernej prezentacji wynika z konceptualizacji tej cechy przez Międzynarodową Federację Księgowych i Radę Międzynarodowych Standardów Rachunkowości oraz z obowiązujących regulacji prawnych. W opinii specjalistów z zakresu rachunkowości wierna prezentacja oznacza, że sprawozdania finansowe prezentują informacje, które zostały pozytywnie ocenione przez organy kontroli i audytu. W rezultacie rzetelność sprawozdań finansowych zależy od jakości prawa bilansowego w sektorze publicznym i realizowanego procesu kontroli. Respondenci rozumieli rachunkowość opartą na zasadach, ale bardziej koncentrowali się na rachunkowości opartej na regulacjach.

Ograniczenia/implikacje badawcze: Ograniczenie badania wynika z liczebności próby, która umożliwiła jedynie analizę zmiennych jakościowych. Badanie ma charakter pilotażowy i będzie kontynuowane.

Oryginalność/wartość: W Polsce, jako kraju zdeterminowanym przez regulacje prawne, postrzeganie wiernej prezentacji (jak również wiarygodności) jest zorientowane na rachunkowość bardzo precyzyjną, opartą na regulacjach. Istotną determinantą wiernej prezentacji jest także legitymizacja przez organy kontroli i audytu, co równocześnie wymaga wysokiej jakości prawa bilansowego. Prezentowane badanie potwierdza istotność procesu harmonizacji prawa rachunkowości. Rachunkowość oparta na zasadach powinna stopniowo wypierać istniejącą w sektorze publicznym szczegółową, techniczną legislację.

Słowa kluczowe: rachunkowość sektora publicznego, wierna prezentacja, prawda i rzetelność, sprawozdanie finansowe, rachunkowość oparta na regulacjach.

Introduction

According to accounting theory and practice, financial statements can only be used for decision-making when they reflect economic reality. For many years, academics and practitioners have explored the subject of reliability with different perspectives emerging in the fields of accounting principles and legislation. For instance, some researchers have highlighted that assessing reliability is extremely

difficult, despite attempts to measure it (Maines, Wahlen, 2006). Sherman and Young (2001) stated that financial statements serve their economic and social purposes if they present the true nature of transactions and all business processes. Consequently, insufficiently reliable data should not serve as the basis for making decisions. Therefore, it becomes important to establish what “reliable” reporting information means. Owing to the difficulties in answering this question, the term “reliability” was replaced with “faithful representation” (FR) in the International Financial Reporting Standards (IFRS) and subsequently in the International Public Sector Accounting Standards (IPSAS). Additionally, research on FR has been conducted, although its scope is limited due to the recent introduction of this term (Erb, Pelger, 2015; Roberts, Wang, 2019). Diverse opinions on the effects of replacing the concept of reliability with FR prompted us to investigate the issue of accounting practitioners’ understanding of these terms.

The purpose of the article is to expand the discussion on the truth and fairness concept and faithful representation in financial statements. We aim to investigate how accounting practitioners perceive the qualitative characteristics of FR. We examine (1) whether the term “FR” is perceived as ambiguous and lacking precision in its definition, (2) whether perceptions of FR are linked to its features and the conceptualization of the fair presentation, and (3) whether specific characteristics of precise accounting standards influence perceptions of FR. This study’s primary theoretical foundation relates to the essence of FR and the question of what truth and fairness (TF) in accounting truly signifies (Erb, Pelger, 2015). Numerous studies (Ijiri, 1975; Mattessich, 1995; pro: Mustapha et al., 2017; Alexander, Archer, 2003) have attempted to answer this question, but none have reached a clear consensus.

With this study, we contribute to the existing literature by presenting the results of a questionnaire survey conducted with public sector accounting practitioners who use a code law and rule-based accounting system. We also investigate their perspectives on principle-based accounting concepts. This is a novel approach, as past, similar studies were conducted in the commercial sector (Anessi-Pessina, Cantu, 2017), distinct from the public sector. Moreover, as we investigate accounting practitioners, we reveal the perceptions of principle-based concepts specific to the accounting environment. Furthermore, we include both preparers and users of financial statements who, in the public sector, frequently play dual roles or switch roles. Our research fits into the area of research devoted to financial reporting quality.

1. Background, prior research, and hypotheses development

1.1. True and fair view, reliability, and faithful representation

There is an ongoing discussion about accounting truth and reflecting the actual state of affairs (Mattessich, 1995; pro: Mustapha et al., 2017). According to Popper (1972), reflecting the absolute truth is impossible; there is only a more or less

accurate approximation of actual events. The true and fair view (TFV) concept is the result of such an approach to accounting truth. Numerous studies have made the concept the focal point of their considerations (Ijiri, 1975; Mattessich, 1995; pro: Mustapha et al., 2017; Maines, Wahlen, 2006; Erb, Pelger, 2015). Based on this concept, financial statements should present an objective, fair, and possibly truthful picture of an economic entity's financial condition and accomplishments. According to Obisesan et al. (2020), TFV is an ambiguous legal term used to define external financial reporting standards. The problems with the concept stem from the combination of elements of the Anglo-Saxon and continental accounting systems (Ciocan, Georgescu, 2018; Ibadode, 2020). Further, the Anglo-Saxon system is based on common law, whereas the continental system is based on code law, which may result in inconsistencies in interpreting the TFV concept (Ciocan, Georgescu, 2018).

Prior to 1997, following European Union law, International Accounting Standards (IAS) required financial statements to present a TFV. Then, the IFRS replaced TFV with "fair presentation" in 1997. Nonetheless, this change was not entirely clear, as the International Accounting Standards Board (IASB) considered TFV and fair presentation to be the same. Furthermore, the IASB does not consider these terms to be qualitative characteristics. As part of the discussion on the modification of IAS 1, difficulties in interpreting the new concept were presented (Evans, 2003; Garvey et al., 2021). This change was not followed by changes in European Union legislation, which still invokes the concept of TFV in the 7th Company Law Directive (Financial Reporting Council, 2014: True and Fair). In replacing TFV with fair presentation, employing the terms "true" and "fairness" is appropriate.

Owing to the ambiguity of the terms "reliability" and "FR", distinct approaches to studying the reliability of financial statements have been taken (Maines, Wahlen, 2006; Alexander, Jermakowicz, 2006; Erb, Pelger, 2015). Regarding the definition of "FR", it is understood as complete, neutral (free of bias), and free from material error, but not necessarily accurate in every way (e.g., legal form) (Conceptual Framework, 2020).

1.2. Precise and imprecise accounting standards and FR

Financial statements should be prepared following domestic regulations, legal principles, and any other customized rules or standards in order to be perceived as sources of complete, accurate, truthful, and (in other words) "trusted" information (Trompeter, 1994); however, customized reports are also drafted and designed to meet the expectations of certain stakeholders (Anessi-Passina, Cantu, 2017). Regarding the presentation of TF in financial statements, the precision of accounting standards should be discussed. The conclusion is that the more accounting regulations there are, the less freedom there is. Moreover, greater restriction is accompanied by an increase in accounting and reporting obligations and a realignment of those obligations. As a result of limited subjectivity, less freedom may result in greater reliability. In this context, both rules-based accounting (more precise) and principles-based accounting (less precise) should be

considered. Nevertheless, the distinction between these two remains debatable (Alexander, Jermakowicz, 2006).

Principles-based accounting (including standards) has a general meaning and is primarily based on the fundamentals of accounting (e.g., Conceptual Framework). It is less precise, less detailed, and establishes a particular course of action with considerable room for sound judgment and firms' creativity and discretion (Schantl, Wagenhofer, 2021; Cho, Krishnan, 2023). Rules-based accounting (including standards) is more precise and stringent. It contains detailed cases, provisions, and definitions and restricts professional judgment. However, it is also more complex and expansive (Bradbury, Schroder, 2012). Thus, the primary objective of modern accounting is to communicate; it is not to promote the idea of following the letter of the law but to comply with its spirit (Alexander, Jermakowicz, 2006).

Without a precise definition of "reliability" or "FR", financial statement preparers and users continue to struggle with these concepts in both theory and practice. Consequently, legal regulations can serve as FR determinants, thereby minimizing subjectivity (Egan, Xu, 2020). Past research confirms that audit influences how different groups of users perceive the FR of financial statements (O'Reilly-Allen, McMullen, 2002).

This study is predicated on the premise that accounting practitioners' perceptions of FR are influenced by their position within the accounting system and by other phenomena (precise standards and control procedures). According to Cohen and Karatzimas (2017), different users tend to understand reliability differently. The perceptions of FR may be influenced by legal requirements, the characteristics of a particular accounting environment, or personal factors owing to these differences in experiences. Depending on operating conditions and industry, these various factors influence perception to varying degrees. In the meantime, the fundamental accounting principles based on TFV remain largely unchanged. Therefore, we formulated the following hypothesis:

H1: The perception of FR is associated with its conceptual foundations.

1.3. Determinants of FR in public sector entities

The public sector may be an interesting setting for testing the influence of various factors on the perceptions of FR in the workplace. Studies on public sector accounting emphasize the sector's uniqueness and the accounting solutions that result from it (Newberry, 2008; Caperchione et al., 2017). Research on harmonization and standardization in public sector accounting (Anessi-Pessina, Cantu, 2017; Santis et al., 2018) and efforts to implement international public sector accounting standards have a tenable objective: to ensure transparency in public management and to enhance the FR, credibility, comparability, and integrity of public sector financial reporting (Kober et al., 2012; Diniz et al., 2015). Public sector accounting systems in many countries have undergone major changes towards the introduction of wholly or partly accrual-based accounting. However, in some countries, cash-based accounting is still used (Rogošić, 2021). The introduction of IPSAS

was primarily aimed at ensuring comparability of information and, as a result, ensuring harmonization of regulations (Rogošić, 2021). The next stage is the introduction of European Public Sector Accounting Standards (EPSAS), which will increase transparency in the public sector (Rogošić, 2021; Golem et al., 2022).

Public sector financial statements are primarily prepared and utilized by budget administrators, boards of local government entities, and other control and audit authorities. The accounting information accessible to users affords insights into multiple facets of the entity's financial position and performance. The government is interested in the management of public resources and the economic and social outcomes of these services (Sicilia, Steccolini, 2017).

In Poland, the public sector is subject to specific legal requirements. Due to the nature of their operations, public sector entities must adhere to the regulations established by the Public Finance Act (Ustawa o finansach publicznych, 2023), the Accounting Act (Ustawa o rachunkowości, 2023), and certain executive acts. The Accounting Act (AA) indicates that public sector entities may apply National Accounting Standards in matters not addressed by the AA. The AA makes no mention of IPSAS, which Poland has not yet adopted. The AA primarily applies to entities in the private sector, and in many areas, it does not take into account the specifics of managing public property and providing public services; as a result, it does not resolve all accounting dilemmas in public sector organizations. The AA refers to accrual-based accounting. In turn, according to the Public Finance Act, the activities of units in this sector are based on financial plans in connection with the tasks of these units, which include budgetary assumptions. The cash approach to the budget is reflected in the accounting system through the use of the cash principle.

The characteristics of internal and external control in the public sector, along with other audit processes conducted by competent authorities or supreme audit institutions, should play a significant role in public sector accounting (Institute of Internal Auditors, 2012). The results of research from different countries show how these factors influence the assessment of FR (as well as reliability) and transparency of data presented in financial statements (e.g., O'Reilly-Allen, McMullen, 2002; Suwaidan, Qasim, 2010; Kasim, 2015).

This relationship also applies to how FR is perceived (O'Reilly-Allen, McMullen, 2002). According to Nogueira and Jorge (2017), there is a positive correlation between internal control and internal auditing and the perceived utility of financial and budgetary information for users in Portugal. O'Reilly-Allen and McMullen (2002) demonstrated that management reports on internal control influence users' perceptions of financial statement reliability. Chalmers et al. (2019) examined the determinants of internal control quality and found that it can have a significant effect on the decision-making of financial statement users. Ionescu and Ionescu (2015) highlighted the importance of internal control in ensuring the quality of financial statements in the public sector. It is important to note that one of the objectives of internal control is to ensure the accuracy of financial statements.

The combination of prior research on FR and the unique characteristics of public-sector accounting led us to form the second hypothesis.

H2: The control process strongly influences the perception of FR.

2. Research design

2.1. Instrument

To test the hypotheses, we employed a questionnaire survey similar to those used in previous studies on the perceptions of different accounting concepts (Suwaidan, Qasim, 2010; Cohen, Karatzimas, 2017). The research instrument was developed by accounting academics and researchers and pilot-tested on accounting students. The results of a preliminary test led to the implementation of a few minor modifications. The final version included 11 statements and four questions, all single-choice answers. Responses to the statements were measured on a five-point Likert scale, with four multiple-choice responses with four options.

2.2. Sample

The anonymous questionnaire was presented to participants of selected trainings dedicated to public finance employees, as well as during public finance forum. We also gathered answers directly by contacting the treasurers of local government entities. These groups included both local government preparers and users of financial statements, that is, institutions from the public sector, control, and audit authorities. This ensured that the respondents had adequate accounting experience to form an opinion on the FR of public sector financial statements.

The majority of the 141 questionnaires were filled out by respondents with over ten years of professional experience (90%). The majority of the respondents (68.6%) identified as economics graduates. In addition, the majority of the respondents (60%) indicated that they were financial statement preparers, while 24.4% indicated that they were financial statement users (e.g., receiving statements prepared by subordinate entities).

3. Results

3.1. Respondents' perceptions of FR

The initial section of the survey consisted of a Likert-scale questionnaire. The respondents were asked to indicate their agreement or disagreement with each statement using a five-point scale: a score of 1 indicated strong disagreement, while a score of 5 indicated strong agreement (Table 1). A Cronbach's alpha of 0.701 indicated that the questionnaire had an acceptable level of reliability. The significance level for the statistical tests for the investigated random sample was set for $\alpha = 0.05$.

Table 1 presents the statistical analysis results pertaining to H1.

Table 1. Descriptive statistics regarding Hypothesis H1

Statement	N	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Min	Max	Me	SD
		%								
1. Faithful representation means completeness of the information disclosed	140	6.4	5.7	16.4	25.0	46.4	1	5	4	1.24
2. Faithful representation means neutrality of information	135	5.9	7.4	22.2	28.2	36.3	1	5	4	1.39
3. Faithful representation means a lack of arithmetical errors	141	6.4	3.5	14.2	25.5	50.4	1	5	5	1.17
4. In the legislation, the concept of faithful representation is described understandably and clearly	139	10.1	25.9	41.0	16.5	6.5	1	5	3	1.08
5. Faithful representation means that a financial statement discloses true information	141	0	0	2.1	20.6	77.3	3	5	5	0.48
6. Faithful representation means true representation of economic phenomena	141	0.7	0.7	5.0	21.3	72.3	1	5	5	0.68

Source: authors' own elaboration.

The first three questions investigated three facets of representational faithfulness. The survey provides evidence that the respondents correctly associated particular characteristics with FR. They clearly indicated that FR requires completeness, neutrality, and the absence of arithmetic errors, with the highest score given to the statement concerning arithmetic errors. These results (#1, #2, and #3) demonstrate that the perception of FR is related to its conceptual foundations. All three statements received substantial degrees of agreement (70.9%, 61.8%, and 75.9% agreed or strongly agreed with the statements, respectively).

In addition, we conducted the Kruskal-Wallis difference test (between demographic characteristics). We found that preparers of financial statements were more certain that FR means completeness of the information disclosed (#3) ($H(2) = 6.802$, $p = 0.033$). In contrast, users of financial statements were the most uncertain group (30.3% were uncertain about statement #3). The descriptive statistics for statement #4 indicated that respondents viewed FR as an incomprehensible concept. However, we found strong agreement with this statement among the respondents with the most experience ($H(2) = 6.689$, $p = 0.035$).

The results for statements #5 and #6 indicated substantial agreement. Regarding statement #5, we found no statistically significant differences. However, for statement #6, demographic characteristics distinguished respondents; respondents with a high school education, those with more than 20 years of professional experience, and those responsible for preparing financial statements were the most convinced that FR denotes a true representation of economic phenomena ($H(2) = 6.064$, $p = 0.048$) ($H(2) = 7.565$, $p = 0.023$) ($H(2) = 6.842$, $p = 0.033$). The results led us to conclude that perceptions of FR are derived from conceptual foundations, thus confirming hypothesis H1.

3.2. Influence of control and audit on the perception of FR

Hypothesis H2 refers to a defining characteristic of FR as perceived by respondents. The response to the second research question was graded using five statements on a Likert scale and four multiple-choice questions with four options. Table 2 presents the results of the statistical analysis pertaining to H2.

Statements #7 and #8 demonstrate a strong conviction regarding the relationship between internal control and external auditing procedures and the FR of financial statements. In both instances, more than 70% of respondents (89.1% and 73.5%, respectively) agreed or strongly agreed with the statements. Analyzing the distribution of responses, we found that respondents with non-economic higher education ($H(2) = 9.000$, $p = 0.011$) and fewer than ten years of practice ($H(2) = 9.979$, $p = 0.007$) were most convinced by statement #7. Regarding education, this also held true for statement #8 ($H(2) = 10.290$; $p = 0.006$). In terms of length of practice, respondents with over 20 years of professional experience (84.8%) were the most supportive of statement #8 ($H(2) = 6.627$, $p = 0.04$). Regarding the position occupied, users were more convinced by statements #7 ($H(2) = 11.934$, $p = 0.003$) and #8 ($H(2) = 10.549$, $p = 0.005$).

Table 2. Descriptive statistics regarding Hypothesis H2

Statement	N	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Min	Max	Me	SD
		%								
7. Faithful representation means that a financial statement is evaluated positively by an external audit	140	3.6	4.3	15.0	30.0	47.1	1	5	4	1.093
8. Faithful representation means that the financial statement is evaluated positively by an internal control	140	3.6	7.1	15.7	31.4	42.2	1	5	4	1.131
9. Faithful representation means primarily that financial statements disclose data prepared in accordance with applicable law and are supervised by the designated authorities	139	2.2	2.2	10.0	30.2	55.4	1	5	5	1.040
10. Implementing internal (managerial) control instruments can improve faithful representation	140	2.9	2.9	12.8	31.4	50.0	1	5	4	0.977
11. The controller's subjective evaluation can have an impact on faithful representation	140	18.6	7.9	26.4	27.8	19.3	1	5	3	1.38

Source: authors' own elaboration.

Statement #9 received strong acceptance (85.6%), indicating that preparing financial statements in accordance with the applicable law and having them supervised by the designated authorities has a significant impact on their recognition as exhibiting the attribute of FR. Consistent with statements #7 and #8, users were more convinced ($H(2) = 9.361$, $p = 0.009$).

The distribution statistics for statement #10 also indicated that control instruments have the potential to improve FR. In contrast, the Kruskal-Wallis test did not reveal statistically significant differences in terms of education, length of professional practice, or current position. In addition, respondents were convinced that subjective assessments made by financial statement controllers cannot influence FR (#11). Consistent with statement #10, the Kruskal-Wallis test revealed no statistically significant differences in terms of education, length of professional practice, or occupied position. Four survey questions were developed to test H2 and facilitate the analysis, as shown in Table 3.

According to the respondents, the primary users of financial statements (questions #1 and #2) are control and audit authorities, which demonstrates the dominance of regulations and auditing obligations in understanding the reasons for preparing financial statements. In questions #3 and #4, answer "B" predominated among other characteristics of public entity financial statements. Remarkably, nearly 68% indicated that the primary purpose of financial statements is to fulfill legal obligations resulting from accountancy law and public sector regulations. Meanwhile, the primary purpose of reports issued by public sector entities is to provide information for decision-making and accountability purposes for various users (Conceptual Framework, 2020). This result demonstrates conclusively that the public sector places control and auditing obligations above theoretical foundations.

Surprisingly, neither education nor occupation affected the responses to questions #1 through #4. However, respondents with over 20 years of professional experience were the most adamant (93.9% of respondents) that the control and audit authorities are the primary users of financial statements ($H(2) = 6.521$, $p = 0.038$), indicating that auditing obligations are the primary impetus behind public entities issuing financial statements. The analysis presented in Tables 2 and 3 allows us to confirm H2, which states that the control process strongly influences the perception of FR.

Table 3. Frequency of answers regarding Hypothesis H2

Question #1 and #2	Capital providers	Control and audit authorities	Creditors (e.g., banks)	Citizens
1. The most important group of users of financial statements	3.6	90.6	2.9	2.9
2. The most important group of users of public sector financial statements	0.7	90.5	1.5	7.3
Question #3	...to provide reliable information for different users of financial statements [%]	...to fulfill legal obligations arising from accounting and public sector law [%]	...to assist in the assessment of the management of the public entity [%]	...the closure of the financial year [%]
3. The main objective of general purpose financial statements is...	25.2	67.6	7.2	0
Question #4	...the fulfillment of underlying principles of accountability [%]	...a thorough knowledge of accounting and public sector law [%]	...professional experience in preparation of financial statements [%]	...an educational background focused on accountancy [%]
4. The accuracy of financial statements is determined mainly by...	40.7	42.2	6.0	11.1

Source: authors' own elaboration.

4. Discussion

4.1. FR derived from the conceptualizations of the International Federation of Accountants and the IASB of accounting regulations

The respondents perceived FR based on the International Federation of Accountants's (IFAC) and IASB's conceptualizations of legal regulations in accountancy, thereby confirming H1. Similar public sector research has focused primarily on the qualitative aspect of reliability. We determined that the relationship between FR and the regulatory sphere is fundamentally similar, and thus, we compared our findings with the literature.

Similar to Egan and Xu (2020), we found that legal regulations may impact the presence of FR characteristics in financial reporting. Further, Cohen and Karatzimas (2017) demonstrated that various users of financial statements have diverse perceptions of their reliability. Cohen and Karatzimas placed special importance on legal regulations and behavioral aspects. Our study confirms these results, particularly in terms of understanding FR as a true representation of economic phenomena, which differed significantly among the following groups of variables: type of education, length of practice, and occupation. The added value of our study is the deepening of knowledge about the complex perceptions of FR among practitioners in the public sector. Our study also addresses the relationship between the public sector and law-based accounting.

Based on a survey of auditors, Trompeter (1994) also highlighted the importance of accountancy law for reliability. When standards were precise, pressure from companies had little effect on auditors' decisions regarding the reliability of financial statements. In this context, our study confirms the need to shape standards toward principles-based accounting, similar to Alexander and Jerma-kowicz's position (2006). Therefore, our findings contribute to the continuing discussion on the transformation of public sector accounting toward harmonization and standardization. The results of our research indicate the need to harmonize Polish regulations with IPSAS and implement them in public-sector accounting.

Our results also indicate difficulties in the practical application of the concepts of TF and FR, resulting from their complicated theoretical basis, that is, the combination of different approaches to reporting effects. Their complexity was noted by, among others, Erb and Pelger (2015).

Our respondents' answers may also confirm the rhetorical nature of the terms TF and FR. On the one hand, they showed an understanding and acceptance of these concepts, but on the other hand, they expected the implementation of detailed, specific regulations. In this context, our study confirms previous research indicating definitional issues concerning reliability and FR (e.g., Mustapha et al., 2017).

In conclusion, our findings are comparable to those of previous research that highlighted the importance of high-quality legal regulations in evaluating reliability and FR. Our results emphasize the need to depart from highly detailed and technical regulations and modernize the public sector's accounting and reporting system.

4.2. The control and audit process as the dominant factor that determines the perception of FR

Our study demonstrates a strong conviction that FR primarily signifies that financial statements disclose information in accordance with applicable laws and that the information is controlled by the designated authorities. Our results demonstrate unequivocally that auditing obligations impact the perceptions of FR. According to the vast majority of respondents, FR indicates that external and internal auditors have evaluated a financial statement favorably.

These results are consistent with the opinion of the Institute of Internal Auditors (2012) and Suwaidan and Qasim (2010), demonstrating the impact of audit factors on internal control quality in the context of increasing financial statement reliability. Our results are also generally consistent with those of Nogueira and Jorge (2017). They demonstrated the positive impact of internal control and auditing on the perceived usefulness of public sector financial statements. We confirm that positive internal control results are more important to the users of financial statements than to the preparers. Our study partially validates the results presented by Ionescu and Ionescu (2015), who emphasized the importance of internal control in ensuring the quality of financial statements in the public sector. Similarly, we confirm the findings of O'Reilly-Allen and McMullen (2002), who demonstrated a positive correlation between management reports on internal control and user perceptions of the reliability of financial statements.

Additionally, we confirmed that the length of professional experience and the nature of the occupant's position influence the perception of FR. Recognition of the conceptualizations of IFAC and IASB as the foundation for FR was particularly apparent among the preparers of financial statements, whereas the investigation of the impact of control processes on perceptions of FR was more closely related to the position of users. In contrast, our results differ from those of Poljašević et al. (2021), who found that educational background and experience do not influence perceptions of accounting information's usefulness. We found that respondents with the most experience were the strongest proponents of the notion that auditing responsibilities dominate the perceptions of FR. Some of the respondents may play dual roles in practice as both preparers and users of financial statements in public sector entities.

Summary

The results of the study broaden the body of knowledge on the perceptions of TF in accounting as being influenced by various factors, including the experiences of accounting practitioners. A complex approach to TF results in the development of diverse strategies regarding the FR of financial statements. We believe that our study fills the gap regarding the lack of academic voices in developing international public sector accounting standards, which Manes-Rossi et al. (2021) indicated.

The results indicate that the concept of TF combined with the qualitative characteristics of FR is understood differently by public sector practitioners in Poland. The respondents viewed it through the lens of rules-based, precise accounting, primarily legitimized by control and audit authorities. Such results may indicate that in countries like Poland, which have been a part of continental accounting for many years, there is still a conflict between accounting based on principles and accounting based on rules. This may be the result of Poland's inconsistent harmonization process in accounting law. Therefore, our study confirms the importance of harmonizing accounting law. Our results also confirm the problems associated with the practical application of FR and its rhetorical nature.

Maintaining the quality of the public accounting system requires a deeper understanding of accounting principles and theories, which is a significant challenge for accountancy. Consequently, our findings are important for Poland and other countries that have not yet adopted IPSAS. In this regard, our results, which indicate the significant impact of factors such as education and experience, as well as control influences, on perceptions of FR, contribute to regulatory and professional-level promotional activities. This is essential to properly develop the reasoning, attitudes, and willingness to accept accounting changes, laying the groundwork for implementing principle-based public sector accounting.

This study provides a clear direction for enhancing the process of change in public-sector accounting, contributing to the debate over whether public-sector accounting standards should be based on principles or rules. Although only a subset of principles was examined, our findings revealed that operating in a rules-based accounting environment does not hinder accounting practitioners' perceptions of introducing a principles-based accounting work environment. In fact, the understanding of FR is not limited, although this does not necessarily lead to actions to limit the strong influence of the control process. We expand the understanding of FR in the public sector and supplement previous research by highlighting the importance of quality in the legislation that regulates accountancy.

When interpreting our results, we must acknowledge the limitation imposed by the sample size, which only permitted an analysis of qualitative variables. Nonetheless, our findings may pave the way for future studies on a grander scale, which could include comparative analyses with other countries that share similar characteristics in terms of public sector accounting, as well as an expansion of the research to include additional characteristics of FR.

References

- Alexander D., Archer S. (2003), *On economic reality, representational faithfulness and the 'true and fair override'*, "Accounting and Business Research", 33 (1), pp. 3–17; doi: 10.1080/00014788.2003.9729628.
- Alexander D., Jermakowicz E. (2006), *A true and fair view of the principles/rules debate*, "ABACUS", 42 (2), pp. 132–164; doi: 10.1111/j.1467-6281.2006.00195.x.
- Anessi-Pessina E., Cantu E. (2017), *Multiple logics and accounting mutations in the Italian National Health Service*, "Accounting Forum", 40 (4), pp. 265–284; doi: 10.1016/j.accfor.2016.08.001.

- Bradbury M.E., Schröder L.B. (2012), *The content of accounting standards: principles versus rules*, "British Accounting Review", 44 (1), pp. 1–10; doi: 10.1016/j.bar.2011.12.003.
- Caperchione E., Demirag I., Grossi, G. (2017), *Public sector reforms and public private partnerships. Overview and research agenda*, "Accounting Forum", 41 (1), pp. 1–7; doi: 10.1016/j.acfor.2017.01.003.
- Chalmers K., Hay D., Khlif, H. (2019), *Internal control in accounting research: a review*, "Journal of Accounting Literature", 42, pp. 80–103; doi: 10.1016/j.acclit.2018.03.002.
- Cho M., Krishnan G.V. (2023), *Principles-based accounting standards and audit outcomes: empirical evidence*, "Review of Accounting Studies", 28, pp. 164–200; doi: 10.1007/s11142-021-09639-z.
- Ciocan C.C., Georgescu, I. (2018), *An analysis of the international research on the relationship between prudence and true and fair view in financial reporting*, "Journal of Eastern Europe Research in Business and Economics", Vol. 2018, Article ID 926522, pp. 1–16; doi: 10.5171/2018.926522.
- Cohen S., Karatzimas S. (2017), *Accounting information quality and decision-usefulness of governmental financial reporting: moving from cash to modified cash*, "Meditari Accountancy Research", 25 (1), pp. 96–113; doi: 10.1108/MEDAR-10-2015-0070.
- Diniz J.A. Silvestre da Silva S.F., da Costa Santos L., Martins V.G. (2015), *Advantages of the implementation of IPSAS in Brazilian public accounting: analysis of the perception of the members of GTCON*, "Journal of Education and Research in Accounting", 9 (3), pp. 265–284; doi: 10.17524/repec.v9i3.1226.
- Egan M., Xu W.Y. (2020), *The true and fair view: exploring how managers, directors and auditors engage in practice*, "Accounting Forum", 44 (4), pp. 398–420; doi: 10.1080/01559982.2020.1727177.
- Erb C., Pelger Ch. (2015), *"Twisting words"? A study of the construction and reconstruction of reliability in financial reporting standard-setting*, "Accounting Organizations and Society", 40, pp. 13–40; doi: 10.1016/j.aos.2014.11.001.
- Evans L. (2003), *The true and fair view and fair presentation override of IAS 1*, "Accounting and Business Research", 33 (4), pp. 311–325; doi: 10.1080/00014788.2003.9729656.
- Garvey A.M., Parte L., McNally B., Gonzalo-Angulo J.A. (2021), *True and fair override: accounting expert opinions, explanations from behavioral theories, and discussions for sustainability accounting*, "Sustainability", 13 (4), 1928; doi: 10.3390/su13041928.
- Golem S., Rogošić A., Dedić G. (2022), *Challenges and Opportunities of European Public Sector Accounting Standards (EPSAS) Implementation and Transparency of the Public Sector in the European Union: Croatian Accountants' Perceptions*, "Region: Regional Studies of Russia, Eastern Europe, and Central Asia", 11 (2), pp. 143–166.
- Ibhadode O.J. (2020), *The truism of the true and fair view of auditor's report*, "Accounting and Taxation Review", 4 (4), pp. 17–31.
- Ijiri Y. (1975), *Theory of Accounting Measurement*, American Accounting Association, University of Virginia, Charlottesville.
- Kasim E.Y. (2015), *Effect of government accountants competency and implementation of internal control to the quality of government financial reporting*, "International Journal of Business, Economics and Law", 8 (1), pp. 97–105.
- Kober R., Lee J., Ng J. (2012), *Conceptual framework issues: perspectives of Australian public sector stakeholders*, "Accounting and Business Research", 42 (5), pp. 495–518; doi: 10.1080/00014788.2012.670383.
- Maines L., Wahlen J.M. (2006), *The nature of accounting information reliability: inferences from archival and experimental research*, "Accounting Horizons", 20 (4), pp. 399–425; doi: 10.2308/acch.2006.20.4.399.

- Manes-Rossi F., Cohen S., Brusca I. (2021), *The academic voice in the EPSAS project*, "Public Money & Management", 41 (6), pp. 447–455; doi: 10.1080/09540962.2021.1905263.
- Mattessich R. (1995), *Critique of Accounting. Examinations of the Foundations and Normative Structure of an Applied Discipline*, Quorum Books, Westport, London.
- Newberry S. (2008), *Public-sector accounting: a common reporting framework?* "Australian Accounting Review", 11 (23), pp. 2–7; doi: 10.1111/j.1835-2561.2001.tb00174.x.
- Obisesan S.O., Oyekanmi M.O., Oladeji F.O., Makinde-Ojo, Y.A. (2020), *An Analysis of the Concept of True and Fair View In Accounting: Global Perspective*, "International Journal of Academic Accounting, Finance & Management Research", 4 (11), pp. 8–16.
- O'Reilly-Allen M., McMullen D. (2002), *Internal control reporting and users' perception of financial statement reliability*, "American Business Review", 20 (1), pp. 100–107.
- Poljašević J., Vašiček V., Kostić M.D. (2021), *Public managers' perception of the usefulness of accounting information in decision-making processes*, "Public Money & Management", 41 (6), pp. 456–465; doi: 10.1080/09540962.2021.1906534.
- Popper K. (1972), *Objective Knowledge: An Evolutionary Approach*, Oxford University Press, New York.
- Roberts J., Wang T. (2019), *Faithful representation as an 'objective mirage': a Saussurean analysis of accounting and its participation in the financial crisis*, "Critical Perspectives on Accounting", 65, Article 102078; doi: 10.1016/j.cpa.2019.02.005.
- Rogošić, A. (2021). *Public sector cost accounting and information usefulness in decision-making*, "Public Sector Economics", 45 (2), pp. 209–227.
- Santis S., Grossi G., Bisogno M. (2018), *Public sector consolidated financial statements: a structured literature review*, "Journal of Public Budgeting, Accounting & Financial Management", 30 (2), pp. 230–251; doi: 10.1108/JPBAFM-02-2018-0017.
- Sherman D., Young D. (2001), *Tread lightly through these accounting minefields*, "Harvard Business Review", 79 (7), pp. 129–135.
- Sicilia M., Steccolini I. (2017), *Public budgeting in search for an identity: state of the art and future challenges*, "Public Management Review", 19 (7), pp. 905–910; doi: 10.1080/14719037.2016.1243809.
- Suwaidan M.S., Qasim A. (2010), *External auditors' reliance on internal auditors and its impact on audit fees: an empirical investigation*, "Managerial Auditing Journal", 25 (6), pp. 509–525; doi: 10.1108/02686901011054845.
- Trompeter G. (1994), *The effect of partner compensation schemes and generally accepted accounting principles on audit partner judgment*, "Auditing", 13 (2), pp. 56–68.
- Walton P. (1993), *Introduction: the true and fair view in British accounting*, "European Accounting Review", 2 (1), pp. 49–58; doi: 10.1080/09638189300000003.

Legal acts and standards

Ustawa z dnia 29 września 1994 r. o rachunkowości, Dz.U. 2023, poz. 120 ze zm.

Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych. Dz.U. 2023, poz. 412 ze zm.

Internet sources

Caperchione E. (2006), *The new public management. A perspective for finance practitioners*, Brussels, Belgium: FEE. <https://www.accountancyeurope.eu/publications/the-new-public-management-a-perspective-for-finance-practitioners/> (access 30.03.2023).

- Conceptual Framework (2020)*, *The conceptual framework for general purpose financial reporting by public sector entities*, <https://www.ipsasb.org/publications/2020-handbook-international-public-sector-accounting-pronouncements> (access 12.02.2021).
- Financial Reporting Council (2014)*, *The UK corporate governance code*, <https://www.frc.org.uk/getattachment/59a5171d-4163-4fb2-9e9d-daefcd7153b5/UK-Corporate-Governance-Code-2014.pdf> (access 16.11.2022).
- Institute of Internal Auditors (2012)*, *The role of auditing in public sector governance, 2nd edition*, http://bibliotheque.pssfp.net/livres/THE_ROLE_OF_AUDITING_IN_PUBLIC_SECTOR_GVERNANCE.pdf (access 11.11.2022).
- Ionescu C., Ionescu C. (2015), *Internal control – crucial factor in ensuring the quality of financial information*, International Conference on Economic Sciences and Business Administration, Spiru Haret University, 2 (1), pp. 163–171, http://icesba.eu/RePEc/ib/wpaper/ICESBA2015_20Ionescu_p163-171.pdf (access 15.05.2021).
- Schantl S.F., Wagenhofer A. (2021), *Principles-based versus rules-based accounting standards: a relevance-enforceability tradeoff*, Working Paper, University of Melbourne, Australia, <https://www8.gsb.columbia.edu/ceasa/sites/ceasa/files/PVR%20Schantl%20Wagenhofer%2020210411.pdf> (access 28.11.2022).