

Original article

Financial information in the management of the local government unit

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INFORMATIONS

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ABSTRACT

Changes occurring in the conditions under which local government units function require the adaptation of the type, scope and frequency of information provided that is used in decision-making processes. In business entities, relevant information used in management is provided by the accounting department and in particular its last stage of reporting. The current accounting system of territorial self-government units is simplified and directed towards the implementation of budgetary tasks and the maintenance of budgetary discipline. Accordingly, the information contained in those companies' reports is incomplete and insufficient for management purposes. Therefore, it would be necessary to transform this system in order to improve the use of information generated in the management process.

KEYWORDS

information, accountancy, reporting, local government unit



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Introduction

As a result of system changes, local government units have evolved from a top-down entity to a market-oriented entrepreneur which seeks to answer the question of how to work to provide local community satisfaction in meeting their needs while being competitive and ensuring the development of an individual. In order to choose the right variant of the action self-government units must take a number of decisions. These decisions are part of a management system that is understood as a set of decision-making activities that ensure the control of processes and resources of the business entity with the purpose of linking and using them in such a way to achieve the best possible effect in the existing conditions of operation in the efficient, effective and compatible with social business activity improvement manner. Information is the basis for making right decisions.

The aim of the article is to prove the importance of financial information in the management of a local government unit. The realization of such a goal was based on the review of the literature of the subject. The article proposes the use of task-based reporting to obtain financial information for the proper management of a local government unit.

1. Importance of information in the management of a local self-government unit

In today's dynamically changing conditions, information is one of the key resources of any organization [Wrycza 2010, p. 2]. It performs a decision-making function, which consists in providing information on decision-making processes.

In business units, decision makers expect information of specific characteristics, at a specific place and time. The accuracy of decisions they make determines the effectiveness of the organization's functioning. A similar view is expressed by A.K. Kozminski – according to him a decision is not so much a one-sided act of choice, but a process that involves gathering and processing information about future action. During this process, the following phases can be distinguished: preparatory (gathering information), proper choice (based on assessment of the future action option), implementation of the chosen variant and control of the obtained effects [Kozminski 1979, p. 6].

Decisions can take place in different states of the decision-maker. Decisions can be made under conditions of certainty, risk and uncertainty. The most advantageous situation from the point of view of the functioning of territorial self-government units is to ensure as little uncertainty as possible in the decision-making process. Policymakers should acquire all information, knowledge about the decision-making situation and ways of addressing decision-making problem [Jaworski and Sokolowska 2011, p. 5].

On the basis of the above considerations it can be concluded that the relevance of the decisions made depends on the quantity and quality of the information held by decision makers. The term "information" is defined in different ways. Norbert Wiener argued that information was simply a content that came from the outside world [Bogdaniecki and Piotrowski 2013, p. 311]. E. Terebucha defined information as a content being a description, order, prohibition, command or recommendation, conveyed in various forms (words, letters, numbers), which is transformed according to certain needs from a sender to a receiver in order to obtain the basis for controlling [Terebucha 1970, p. 12].

For C. Berman information means [Berema 1991, p. 163]:

- a product – of a specific process which involves an executor (source of information) and a user (receiver, addressee) and is subject to the operations of generation, storage, transmission, etc.,
- a measurable quantity – enabling the quantitative characteristics of a message called information,

- potential – meaning the ability of information to change a state of affairs in the decision-making process, to reduce or eliminate uncertainty,
- change – both the attitude of a recipient and the behavior of a given system.

Information should have features that allow for its evaluation and assessment of usefulness. Information is considered useful when it brings a user closer to achieving the intended goals. The quality of information is determined by the following attributes:

- actuality – it should reach a recipient at a specific place and time and relate to a strictly defined period. Outdated information is useless for its recipient,
- accuracy means that the content received concerns a strictly defined problem. There is no unnecessary content that distorts or prevents the correct understanding of the fragment of the reality being learnt,
- credibility – is related to the credibility of the source of information. It results from numerous misrepresentations of information that increase along with the distance covered by information and the greater number of relay points.

During the operation of a business entity there is a demand for a variety of different types of information including financial information. It refers to the financial area of an enterprise, which deals with raising funds from various sources and their allocation. This information plays a key role in making and implementing decisions concerning the main aspects of functioning of local government units. They provide the basis for shaping investment decisions, enabling them to build rational financing strategies.

The financial information is most generally divided into:

- financial information supporting short-term management (operational),
- information used in the long-term decision-making process.

Based on the observation of local government units' functioning, it can be stated that decision-makers report the demand for information, which allows for:

- monitoring the current financial situation of the local government unit,
- financial liquidity management,
- monitoring the debt level,
- monitoring the cost level.

In view of the above-mentioned needs reported by decision-makers, local authorities should improve the information system in such a way that it provides reliable, relevant and up-to-date financial information.

2. Reporting as a source of financial information in local government units

Demand for financial reporting in local government units is satisfied by the information system. The studies of literature as regards the notion of accountancy support the conviction that it is the financial information system of a business unit. Each of the analyzed definitions contained terms such as "system", "information system" or "financial information" [Spoz 2015, p. 426].

The essence of accounting is to reflect the property and financial situation of entities in monetary measurement and to capture economic events in a complete and comprehensive manner using specific methods and forms as well as organizational and technical solutions. One of the functions of this system is to summarize information on the asset and financial status in mandatory and optional reports. A properly set up accounting system constitutes grounds for the preparation of financial statements and budget reporting.

The purpose of reporting by a local government unit is to provide information on the situation of this unit and on the results and changes in the financial situation needed for external users and the economic entity itself.

Financial reporting “covers structured sets of selected information, created both by and outside the accounting department, characterizing the past and present financial and property situation of an enterprise and the volume of its financial profit/loss amount resulting from that entity's operations” [Sawicki 2002, p. 71]. J. Samelak proposes that financial reporting should be understood as a systematic set of “selectively and synthesized information of a predominant financial nature, created primarily by accounting and partly outside of it, relating to the past and present financial and property situation as well as financial result of an economic entity allowing for conclusions about the future” [Samelak 2013, p. 79]. The following can be deduced from both definitions: financial reporting is a set of various lists of figures presenting financial information concerning both the current and the previous reporting period, prepared for the needs of internal and external users. Including comparative information as of the closing date of the previous financial year in addition to information from the current reporting period increases the cognitive value of financial statements allows for conducting a careful analysis and consequently evaluates the entity's activity as a whole, as well as its development trends.

The primary function of financial reporting in local government units is to provide figures necessary to carry out supervisory, control and audit processes related to these units and the public funds at their disposal. This information also enables analyzing the financial situation of local government units that can be used in drafting future budgets and in the processes of financial system regulation.

The data contained in financial statements are used by the users to obtain information on the condition and changes in the financial and property situation as well as the results of activities of a local government unit. The objective assessment of the examined entity's situation is largely dependent on the level of knowledge held by analysts. Only data processing using the appropriate methods provides the possibility of obtaining information that is relevant to a user.

The financial statements should have the following characteristics: truthfulness, verifiability, completeness, clarity and comprehensibility, relevance, continuity, comparability and punctuality to present a true view [Kiziukiewicz 2014, p. 36].

The following financial statements are prepared on a yearly basis in the units of local government: balance sheets, profit and loss accounts and statements of changes in the

entity's fund. They are the basis for a static and dynamic assessment of the financial state of a local government unit.

As stated earlier, the reporting information should be made in a reliable and fair manner. The relevance of the decisions taken, and therefore the situation and development of a unit, depends on the above to a large extent. Proper decision-making in local government units would not be possible without information on the financial and property situation of local self-government units. It is therefore important to note the significance of the consolidated balance sheet. It is developed for a group of entities affiliated with a local government unit, which is organized in such a way as if a local government unit and a group of related units were one entity. Since the introduction of the obligation to produce it, it has become an essential element in the management of a unit and not just its administration. It provides a complete picture of its functioning with its organizational units taken into account.

The information on operating costs, which are the basic criterion for decision-making, is the most important from the point of view of the management of a local government unit, since it is impossible to carry out any activity without it. The profit and loss account is a component of financial statements of a local government unit providing information on the purposeful consumption of factors of production and some expenditure that does not constitute the consumption of factors of production. It can be compiled in a comparative variant. It follows that the result from the core activity is determined using the breakdown of costs by type. The basic groups of this cost structure report the total consumption of production factors in a given period in terms of simple, homogeneous and indivisible cost elements [Kozuch 2009, p. 176]. It should be noted that the structure of costs by type is sufficiently detailed for the purposes of external reporting. However, it is too aggregated for efficient decision-making of internal users of economic information. This increases the probability of error in cost budgeting and reduces the efficiency of the information delivery system.

The statement of changes in the entity's fund is another important element of annual financial statements. It complements and details the information included in the balance sheet and the profit and loss account. In relation to the balance sheet, it expands the information on the structure and changes of individual elements of equity for the previous and current financial year. In the case of the profit and loss account, it replaces the current revenues and expenses of the entity with capital gains and expenses [Spoz 2014, p. 424].

The presented elements of the annual financial statement provide a wealth of useful information relating to all aspects of a unit's activity. However, it is insufficient for executives to ensure maximum efficiency of operations. The level of detail of both the balance sheet and the profit and loss account does not provide decision makers with exhaustive information. Information describing the structure of expenditures and realized incomes, showing the general functioning of a given unit is of great importance. Another factor affecting the low usability of financial statements is their annual, and therefore historical, character. The management decision-making process based on the analysis of this report once a year may result in the failure to notice many negative

events that threaten the functioning of a local government unit. Therefore, it is necessary to make mid-term reporting for decision-making purposes [Filipiak 2009, p. 120].

Budget reporting is an important source of information. It provides information on the budget execution and its compliance with applicable law and thus is the main financial management tool of a local government unit. This type of reporting is a systematic set of cyclically prepared reports that are uniform in formal and substantive terms in the planning sections resulting from planning and the need for executing operative control over budget execution [Bakalarska 2005, p. 26]. Furthermore, the main task of budget reporting is to provide figures for the analysis and economic planning. The information contained in these reports is an important source of credible data to enable comparisons in the scope of income levels and budget expenditures in various periods, and consequently to draft future budgets [Zysnarska 2016, p. 356].

It should be borne in mind that budgetary reports prepared by local government units are not devoid of defects, which in practice may seriously interfere with taking proper decisions. The main reasons for the dysfunctions of current budget reports are as follows [Adamek-Hyska 2013, p. 12]:

- these reports concern only the budget in general and do not illustrate the performance of tasks by a local government unit,
- frequent changes to the rules for drawing up budget statements make it impossible to ensure continuity so that the information presented thereafter is comparable,
- duplication of the same information in several budgetary reports on, for example, incomes and expenditure (e.g. Rb-27 S, RB-28 S and RB-NDS);
- inconsistent rules for presentation of data relating to receivables and liabilities,
- presented data usually do not allow the comprehensive assessment of the appropriateness and effectiveness of the involvement of external financing in a local government unit,

The indicated deficiencies in budget reporting lead to wrong decisions in local governments. Therefore, a new tool should be proposed that would provide complete and reliable information for regulatory purposes. Reporting in the task system could be one of the tools supporting the decision-making process.

3. Tasks reporting

The functioning of local government units differs from that of classical business entities whose aim is to maximize profit. On the other hand, the optimization of the usability of the expenditures that are limited is an important part of the activity of municipalities, districts and voivodships. Therefore, for these units, particular attention should be paid to the financial information supporting the unit management process. One of the sources of its obtaining could be task reporting, which is currently applied by the central administration units. Implementing such a procedure would provide plenty of benefits in the form of comprehensive information on the effectiveness of these entities.

Task-based reporting should include information on the planned task, costs incurred for its implementation and indicators to measure the effect achieved.

A budget task is the smallest element of a task budget. For it, the total costs are calculated and the persons responsible for its implementation are designated. From the point of view of management decisions, it is important to recognize information about the cost of performing tasks assigned to the unit. The cost of implementing a given task consists of direct costs and indirect costs. The first is necessary for the task to be performed in such a way that the desired service or result is achieved. Indirect costs are those associated with the services supplied to a task performance by other administration bodies or departments. The allocation of indirect costs to specific tasks is done by means of subdivision keys.

In order to make the reliable information on the specific consumption of individual production factors in local government units possible to provide, it would be necessary to introduce the calculation system in addition to the breakdown of costs by type. This will answer the question of what the costs included in individual accounting headings have been allocated to. Recording costs on accounts of team 5 will ensure greater clarity of direct and indirect cost accounting [Winiarska 2012, p. 16].

Data concerning measures should also be included in the statement of the task system. The role of measures is quantitative and qualitative verification of the accomplishment of the objectives pursued. They serve the achievement of tasks and sub-tasks in terms of relevance, effectiveness and efficiency, usability and sustainability. Measures that relate to efficiency and effectiveness are particularly important, i.e. they indicate the course of the relation of tasks and subtasks.

Effectiveness measures indicate the degree of achievement and the level of quality of the pursued goals. They can be used both at the task, sub-task and action levels. These measures particularly concern [Zysnarska 2016, p. 363]:

- timeliness of executed tasks,
- ability of responding quickly to irregularities,
- accuracy of performance of tasks,
- compliance of operation with norms and standards.

For example, the percentage of the executed checks recognizing the service quality as satisfactory may be such an indicator of effectiveness.

Effectiveness measures are constructed as a quotient of inputs to effects. They can be used at the tasks and sub-tasks levels. These types of measures may include, for example, the cost of considering one application.

Besides the measures presented in the task budget, there may be other ones, such as:

- satisfaction measures, e.g. the number of satisfied office's clients,
- performance measures, e.g. the number of applications handled in a specified period of time.

The comprehensive analysis of the report drawn up in the breakdown by tasks should enable a new qualitative analysis and review of expenditures in the task system, the assessment of the validity of assumptions as well as the determination of the degree to which the stated goals have been attained. What is more, reports prepared in this system make it possible to verify the correctness and usability of the selected measure [Postula 2013, p. 128].

Conclusion

The variability and complexity of the environment of modern organizations causes that their management is not easy. In every management process information plays an essential role. It is impossible to make the right decisions without having an efficient, up-to-date and reliable system for gathering and processing information about a unit and its surroundings.

In local government units accounting, particularly its last stage of reporting, constitutes such the financial information system. The present deliberations allow for the conclusion that the information included in the financial reports is extremely crucial in the management of a local government unit. Unfortunately, they have many disadvantages that impede making right decisions. These include:

- too synthetic depiction of information in reporting, which hinders its proper analysis,
- data included in a report are of historical nature,
- are created after substantial delay, which very often makes them outdated.

The above-mentioned drawbacks indicate that the information system of a local government unit should be modified. One solution would be to use reporting in a task system. This would create the possibility of linking disbursed funds to the obtained values of measures.

Conflict of interests

The author declared no conflict of interests.

Author contributions

Author contributed to the interpretation of results and writing of the paper. Author read and approved the final manuscript.

Ethical statement

The research complies with all national and international ethical requirements.

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