The perspectives of IPSASs introduction in Croatian public sector

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Abstract: Some countries base national public sector accounting standards on IPSASs, keeping their own national sovereignty, others prepare IPSASs compliant financial statements, while some intend to change to accruals and consult IPSASs. This paper contributes to the literature on IPSASs implementation and adoption by highlighting changes in progress in Croatia, where neither national public sector accounting standards are developed, nor IPSASs appliance mandatory required, whilst IPSASs are recommended by regulations. This study aims to broaden international discussions about public sector accounting reforms, reflect on Croatian public sector accounting developments, examine the implementation level of accounting solutions defined by IPSASs in Croatian public sector, and specify eligible tendencies towards more comprehensive IPSASs appliance. We discuss the requirements of and compliance with IPSAS 6, 22 and 24. The study shows that although IPSASs are not obligatory enacted in Croatia, certain Croatian public sector financial reporting procedures comply with those recommended by IPSASs.

Keywords: public sector accounting reform; accruals; financial reporting and budgeting; IPSASs; Croatia.


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1 Introduction

The need for high quality global standards to enhance sound and consistent financial reporting, and the fact that the inefficiency and ineffectiveness of public sector in its actions, extended to a belief that public and private sectors did not have to be managed in fundamentally different ways, fostered the already started harmonisation of national and international public sector accounting systems and their convergence towards the private sector financial reporting standards. As a result, 32 accrual International Public Sector Reporting Standards (IPSAS) emerged, out of which 29 are based on International Financial Reporting Standards (IFRSs). As more countries around the world adopt accruals in their public sectors, precisely in government financial reporting and budgeting (i.e., the process of budget planning and execution), the costs and benefits of complying with IPSASs start to be examined.

The motivation for this paper emerges from international discussions about IPSASs development and adoption. According to Roje and Vašiček (2008), some countries use their own accounting standards that are broadly consistent with IPSASs requirements, keeping their own national sovereignty to apply national accounting standards; others prepare IPSASs compliant financial statements, while some countries are in the process of adopting IPSASs. Further, some multigovernmental bodies and supranational organisations have used IPSASs as the basis for the accounting policies’ development for the objective of migrating to the full accruals basis (i.e., The European Commission, Organisation for Economic Cooperation and Development, World Meteorological Organisation). Also, certain jurisdictions which have been on full accruals for some time, such as the UK, have used the approaches on public sector specific issues to inform their accounting policies in these areas, because neither IFRS nor national accounting
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standards give firm steers as to the appropriate approaches (i.e., the emerging approaches to the treatment of tax revenues and the state pension).

However, as many studies have focused mainly on governmental accounting reform in the developed countries, this paper attempts to contribute the literature by examining changes in an EU accession country – Croatia. We find Croatia particularly interesting to study for several reasons:

a) its existing government accounting/financial reporting system has been based on modified accruals as a gradual transition from cash basis to accruals

b) approved budget(s) are made publicly available

c) budget amounts are cash-based

d) national public sector accounting standards have not been developed

e) IPSASs appliance has not been mandatory required, but the implementation of certain accounting solutions defined by IPSASs have been recommended by certain Croatian regulations.

The fact that certain existing procedures/solutions applied in Croatian public sector accounting practise comply with those recommended in IPSASs, even though IPSASs have not been enacted on a mandatory basis, provoked us to examine areas where IPSASs have been influential in Croatian public sector accounting practise, and to specify certain eligible tendencies and possible courses towards more comprehensive compliance with IPSASs.

In particular, in the course of considering possibilities and the appropriateness of IPSASs adoption in Croatian Government accounting system, in this paper we put emphasis on IPSAS 6: Consolidated financial statements– accounting for controlled entities, as well as on two IPSASs that are not IAS/IFRS-based, yet are regarded as public sector specific standards – IPSAS 24: Presentation of Budget Information in Financial Statements, and IPSAS 22: Disclosure of Financial Information About the General Government Sector.

Since IPSAS 24 refers to public sector entities that make their approved budget(s) publicly available, we discuss the implementation of IPSAS 24 requirements in Croatian public sector despite the fact that accruals have not been adopted yet, and we illustrate the headers of the reports that have been in use. In Croatia, actual amounts do not follow the same accounting basis as for the reporting on budget amounts. Therefore, we emphasise the necessity of reclassifying the reports on actual amounts regarding the accounting basis used and the necessity of reporting on differences, between the report on actual amounts (resulting from the budget execution), and financial reports, that result from different accounting basis appliance.

In addition to complying to IPSAS 24, some other accounting solutions that have been adopted in Croatia according to Croatian accounting legislative framework, also comply on a satisfactory level with those defined by certain IPSASs in a way that the reports capture all the necessary information, despite the fact that IPSASs are not obligatory required in Croatian practise and despite the fact that government entities in Croatia do not prepare financial statements under the accrual basis of accounting as prescribed by most of the IPSASs. This primarily regards the preparation and presentation of consolidated financial statements for an economic entity – IPSAS 6, and
the requirements for governments which elect to disclose information about the general government sector – IPSAS 22.

From our point of view, the perspectives of IPSASs introduction in Croatia need to be overviewed in the contexts of EU accession. This implies that the encouragement for fully complying with IPSASs would comprise the following issues:

a accruals introduction, that would among other things enhance the development of cost accounting and managerial accounting instruments

b the reconciliation and eventually the consistency of accounting basis for budget (planned) and actual amounts

c the reconciliation and eventually the consistency of accounting basis in financial reporting and budgeting

d the reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements that would enable better understanding of Croatian public expenditures accounts at the international level.

The paper is structured as follows. Next section presents a reflection on international developments in public sector (governmental) accounting and establishes a theoretical platform for the later analysis. It precisely addresses the development of accrual IPSASs, public and private sector accounting systems’ convergence, and national and international public sector accounting standards harmonisation. We summarise main issues addressed in existing literature regarding the trends that refer to public sector accounting framework development, in attempt to provide the audience with the updated overview of a portion of recent changes regarding financial reporting systems convergence. Thereafter, the overview of government accounting system development in Croatia, reflecting the achievements done so far, is presented in the third section of the paper. Thus, we reflect on public sector accounting reform by analysing the accounting framework, and by specifying and discussing qualitative features of existing Croatian public sector accounting system. Fourth section examines to what extent certain IPSASs have been recommended and influential in Croatia. We precisely discuss the requirements of IPSAS 6, IPSAS 22 and IPSAS 24, and by referring to legislative framework we qualitatively analyse the compliance of existing solutions applied in Croatian Government accounting system with three selected IPSASs. In addition, we illustrate the headers of reports on budget execution. Last section concludes and points out certain requirements concerning further adjustments of Croatian Governmental accounting information system development towards the international trends.

2 Recent international trends in government accounting

The process of adopting a uniform set of accounting standards, as a part of the international convergence of financial reporting systems, is perceived as a very important aspect of the globalisation of the world economy [Australian Bureau of Statistics (ABS), 2002; Herz, 2007]. For many years, accounting professionals, regulators, financial analysts and investors have called for efforts to harmonise accounting standards across countries (Roje and Vašiček, 2008). The trend of international convergence and harmonisation policy of private sector accounting and financial reporting standards has
also made the influence on the process of entire public sector reform that has been progressing worldwide. In addition, the changes in public sector (government) accounting were central to the public sector reform (Hood, 1995).

The aforementioned refers to the set of administrative and public sector financial reforms that are subject of a large number of scientific and professional papers. The result of these reform processes is a concept well known in the literature – new public management (NPM) which implies managing based on using economic regularities and market efficiency principles (Azuma, 2003). Starting from the concept that information is the most important resource needed in the managing process, a comprehensive accounting information system is crucial for successful public management performance (Vašiček, 2004). Even more, a substantial literature has shown that the governmental accounting reform, among other things, consists of introducing accrual accounting in governmental organisations (e.g., Lüder and Jones, 2003; Brusca and Condor, 2002). Christensen (2002) emphasises accrual financial reporting as being significant amongst the accounting technologies that have dominated public sector management reforms.

Accounting and management challenges for general government and its component entities have implicated a continuous introduction of innovations and reforms in accordance with new international trends, techniques and experiences, already adopted within the private sector. According to Roje and Vašiček (2008) the aforementioned trends comprise the following:

- the convergence of IPSAS towards IAS/IFRS and the harmonisation of national and international public sector accounting
- the harmonisation of information systems – accounting and statistics reporting systems (the identification of differences in approach between financial reporting and statistical forms of reporting)
- the development of cost and managerial accounting instruments within the public sector, to enhance the harmonisation of internal and external reporting.

However, unlike the experiences in the private sector, that is unique and consistent in accrual accounting basis appliance, the same basis is unevenly applied in public sector accounting worldwide. Even more, different accounting basis as gradual transitions from cash accounting to accrual accounting, have been implemented in public sector financial reporting in different countries, depending on the level of national accounting systems development. International research has shown that developed countries have made a significant progress regarding the implementation of the accruals in public sector. Some of them have already implemented accrual accounting in budgeting and reporting at the consolidated state level. In New Zealand, Australia, Canada, UK, it was the introduction of private sector management techniques into the public sector that has led to the full adoption of the accrual basis in reporting and budgeting (Roje, 2007).

General government sector entities have traditionally used cash basis accounting. Since the 1990s governmental accounting has progressed in a way that important supporters of cash basis like International Federation of Accountants (IFAC), EU Commission, International Monetary Fund, United Nations, entered discussions over the benefits of change to the accruals. Introducing accruals has been followed by the move of complying with IPSASs (Roje and Vašiček, 2008). Starting from the concept that there is a need for high quality global standards to enhance consistent financial reporting, the International Public Sector Accounting Standards Board (IPSASB) launched its
Standards Programme in 1996, focusing on the full accrual accounting but also addressing the needs of constituents reporting on the cash basis. As a result, the IPSASB has so far issued 32 accrual IPSASs, to be applied to all public sector entities other than Government Business Enterprises (GBEs). The IPSASB aims for IPSASs to converge with the IFRSs, issued by the International Accounting Standards Board, and to maintain, wherever possible, the accounting treatment adopted in the IASs/IFRSs, while considering public sector specific issues at the same time. This refers to 29 IPSASs based on IASs/IFRSs, three public sector specific standards and one cash basis standard. According to Mike Hathorn, IPSASB Chair as of January 2007 “..... converging IPSASs with IFRSs, where appropriate for the public sector, is one of the key strategic objectives of our standards development program”. The IPSASs, therefore, tend to reflect an array of international trends and views concerning government accounting development. These trends also refer to the harmonisation of accounting and statistics reporting systems which results in transparent, standardised and internationally comparable accounting information that consequently decreases diversifications of accounting systems and improves the quality of government reports, especially regarding public expenditures (IPSASB, 2005). Accordingly, accrual-based Government Finance Statistics are considered as a path towards establishing contextual and functional linkage concerning financial and statistics reporting on public spending (IMF, 2001).

Although IPSASs have not been directly and mandatory adopted by many national governments, they have been influential in other ways. Some countries and supranational organisations have used them to inform their own standard-setting processes as they move to the full accruals basis of reporting (e.g., European Commission used IPSASs as the basis for the development of its accounting policies for its daunting objective of migrating to the full accruals basis in 2005.) Despite the controversy in the literature on whether the introduction of private sector management and accounting techniques into the public sector is appropriate, taking into account the specific non-profit nature of general government sector, the move to accruals in government financial reporting and budgeting has gained universal acceptance. Certain countries have been applying full accruals in, both, financial reporting and budgeting, applying standards that are broadly consistent with almost all of the IPSASs requirements – e.g. Australia, Canada, the UK, and New Zealand (Roje, 2007; IFAC-IPSASB, 2007), while a range of national governments with the intention to change to the accrual basis have expressed the will to consult IPSASs – e.g., UAE, the Netherlands, Malta, Israel, etc. (Grossi, 2006). Referring to IFAC 2007 document, titled ‘IPSAS adoption by governments’, many countries are in the process of adopting IPSASs or IPSASs – compliant government accounting standards. In some countries where neither national public sector accounting standards have been developed, nor IPSASs appliance required (e.g., Croatia), the implementation of certain accounting solutions defined by IPSASs has been recommended by regulations (Vašiček, 2004; Vašiček, 2007a, 2007b). While the OECD, EU Commission and NATO adopted IPSASs as the basis for financial reporting in 2006, the initial goal for IPSAS adoption across the UN system was full compliance for the financial period commencing 1 January 2010 (Nuthall, 2007). However, the estimated date for full compliance has subsequently been amended and, in total, nine UN organisations indicated that the compliance would be achieved by 2010, a further ten by 2012, and three more by 2014.

Different authors have provided an array of reasons for implementing accruals in general government and in government entities’ financial reporting as well as in budgeting. However, a very important one, according to the existing literature, is the fact
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that accruals enable ‘the whole of accounts’ that assures gathering full information on assets, liabilities, revenues and expenses of an entity, and the sector as a whole (Pallot, 1992).

In order to encourage and secure international transparency of national economies as for public finances are concerned, and to continue with their adjustment towards the future public sector accounting standards’ development, national and international accounting standards boards and associations worldwide have been intensively working on preparing and upgrading international public sector accounting standards and their national equivalents. In that manner IPSASB has been regularly publishing an array of studies that deal with helping solving some major questions in the field of accounting and auditing, with the aim of transferring and converging the experiences of the countries that follow public sector accounting trends and have almost finished the reform processes, to the ones that have just started planning the public sector accounting reforms. Papers published in well known and internationally recognised journals (Pallot, 1992; Simpkins, 1998; Hepworth, 2002), studies published by well known and established associations (Australian Bureau of Statistics, 2002; New Zealand Treasury Annual Reports, etc.), have contributed to the process of accounting and information systems’ harmonisation. In an effort of summarising main issues addressed in wide array of articles and reports, Roje (2006) points out the following international governmental accounting trends:

- the implementation of accruals in national public sector accounting systems and the compliance of national accounting solutions with IPSASs
- the need and effort put into the process of information systems’ convergence (the convergence of accounting and statistics systems
- the practice of implementing resource accounting and budgeting in order to establish the connections between the inputs, goals and purpose of activities undertaken by the government, and the results (outputs) achieved
- the consistency of accounting basis adopted for the budget (budget and actual amounts comparison)
- the consistency of accounting basis for financial reporting with the accounting basis for the budget.

The need for achieving greater budgeting transparency urged the implementation of market efficiency principles, good governance practice and business-style accounting and reporting practices for governments. Starting from the concept of enhancing the quality and uniformity of financial reporting throughout the world, the objective of the IPSASB has been to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards. As a result, the IPSASB has issued 32 accrual IPSASs that represent a significant step towards strengthening governmental financial reporting around the world. Among recently issued IPSASs, IPSAS 24 refers precisely to the matter of accounting basis consistency in budgeting as well as to the issue of having different basis of accounting for the budget and for the general government sector entities’ financial statements. Thus IPSAS 24 requires that the financial statements of those public sector entities that prepare and present financial statements under the accrual basis of accounting or that make their approved budget(s) publicly available include a comparison of actual amounts with amounts in the original and final budget. Such a comparison is to
be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted for the financial statements.

Similar to conclusions in the international comparative study by Brusca and Condor (2002), but having also taken into account transition countries’ experiences, study by Roje (2007) concludes that it is especially in Anglo-Saxon countries where the accrual criterion predominates in public sector accounting, while Continental European countries are still in the process of converting to accrual accounting for both reporting and budgeting. Typically, the latter countries (and more precisely transition countries) have so far adopted modified cash or modified accrual systems instead of full accrual systems. The data on countries in transition (e.g., Poland, Slovakia, Check Republic, Romania, and Croatia) in Roje (2007) points out several discrepancies among the countries as for the process of adopting more complex accounting basis is concerned. This draws to the conclusion that the transformation phase towards adopting accruals in governmental accounting and reporting in majority of transitions countries has been characterised by accounting basis inconsistency. Consequently, it slows down the process of compliance with the majority of accrual IPSASs.

3 Important features of the government accounting system in Croatia

Croatian national government accounting system had historically been influenced by the cameral accounting theory. Since it had been developed to monitor and control the balance between planned and actual amounts of all state revenues (cash inflows) and expenditures (cash outflows) for a certain period, single entry cash transactions had been a sufficient solution. In addition, being a Continental European country, its budgetary system has in fact influenced the accounting system. Consequently, the governmental accounting information system’s structure and contents has been viewed more in function of State’s budget goal achievements and less in function of achieving greater management efficiencies and hence better outcomes (Vašiček, 1998). In an economic system in which the government controlled all major sectors of the economy, formulated all decisions about use of the resources and about the distribution of income, and regulated production, distribution, prices, etc., governmental accounting happened to serve the prior purpose of monitoring and controlling the budgeting processes, having been more in function of national accounts, while statistics information systems were given priority with respect to accounting information systems and financial reporting.

Since 1991, when Croatia gained independence, a new public expenditures’ financing model was established and accounting and financial reporting systems were changed. The governmental accounting reform started in 2001 and ever since Croatia has been trying to follow the international developments towards the introduction of accrual accounting within the national government sector. The later regards the implementation of modified accrual accounting as a gradual transition from cash basis to full accruals (e.g., Vašiček, 2004, 2007a; 2007b). Roje et al. (2008) state that among the most important features of Croatian Governmental financial reporting model based on modified accrual accounting basis are that revenues are generally recognised on cash basis with only certain revenues recorded on accrual basis; regular expenditures and liabilities are recognised on accrual basis and that that expenditures regarding the fixed assets supply are not capitalised but rather treated as an expense in full when obtained. This further implies that assets are not
being depreciated yearly based on the estimated assets usage period (Vašiček et al., 2003).

Therefore, since the late 1990s there has been much ado about Croatian Governmental accounting information system and a substantial literature emerged (Vašiček, 2005; Maletić and Vašiček, 2003). A large portion of that literature has been devoted to the process of convergence of public and private accounting information systems and the need for further adjustments that would enhance public sector accrual accounting information system as a solid basis for improving and encouraging efficient managerial decision-making within Croatian public sector. This precisely refers to the research topics of accruals implementation, managerial and cost accounting techniques implementation, etc. (Gulin et al., 2007).

As emphasised, in the year of 2002, new governmental accounting system was established in Croatia. Since governmental activities have been financed through the Budget, the legislative framework regarding governmental accounting development was determined by The Budget act (in Croatian: Zakon o proračunu) and supplemental set of regulations, all published in Croatian Official Gazette. The regulations (decrees, instructions, policies), define and analyse certain parts of The Budget Act more precisely and thus enable faster and easier qualitative adoption of regulated solutions. According to the mentioned regulations all general government entities (central and local government, and their component entities, i.e., departments, boards, agencies, commissions, etc.) have been obligated by the law to apply governmental accounting and financial reporting model. The fact that all entities within general government have been obligated to conform, has assured complete accounting and reporting on general government activities. Also, the uniform chart of accounts and consistent appliance of rules for recording cash transactions and economic events have been regulated by the law as well, with the aim to assure standardised information base for conducting additional data analysis when needed. As for the information on budget (budget planning and budget execution), and accounting and financial reporting is concerned, the appliance of organisational, economic, functional, location and programme classifications of the budget have been obligatory.

There may be various reasons for such a high degree of governmental accounting normativism. Firstly, Croatian independence was declared in 1991 and the planned economy was changed to the market-driven one. Secondly, there has been high degree of public finances’ centralisation, public expenditures’ have been financed through central Budget, and there has been an obligation to consolidate reporting on public expenditures. Also, as a part of the inevitable process of adjusting its system towards the one of the EU, Croatia has had to take into account different international institutions’ requirements. The situation of a strong money focus in the budget, combined with a strong law tradition, helps to explain why Croatia, as it is the case with other Continental European countries, had been reluctant to replace their financial accounts (focusing on revenues as cash receipts and expenses as cash payments) with performance accounts (full accrual accounts – focusing on revenues earned /realised and expenditures incurred).

In addition to the aforementioned qualitative features of existing Croatian Government accounting system, national public sector accounting standards have not been developed. This is mainly due to the fact that accounting framework in Croatia has been set up as a law-based system. Despite the non-existence of national public sector accounting standards, the appliance of IPSASs has not been enacted as obligatory, though the implementation of certain accounting solutions defined by IPSASs has been
recommended by the aforementioned Croatian regulations. Consequently, the majority of existing procedures/solutions applied in Croatian public sector accounting practise have complied with those recommended in IPSASs, as it is illustrated and discussed within the fourth section of this paper. The requirements concerning further adjustments of Croatian Governmental accounting information system development towards the international trends are, therefore, viewed through the accruals introduction and consequently through the encouragement for fully complying with IPSASs that would enhance better understanding of Croatian public expenditures accounts at the international level. We address this issue in the fourth chapter of the paper.

4 The influence of IPSASs on current Croatian public sector accounting practise

As the aforementioned accounting framework in Croatia has been set up as a law-based system and national public sector accounting standards have not been developed. Despite the non-existence of national public sector accounting standards, the appliance of IPSASs has not been enacted as obligatory. However, the implementation of certain accounting solutions defined by IPSASs has been recommended by Croatian regulations. Therefore, in this chapter we analyse the extent to which some Croatian public sector financial reporting features comply with the IPSAS recommendations.

For the purpose of better understanding, several distinguished qualitative features of the existing Croatian Governmental accounting system need to be pointed out before discussing the influence of IPSASs on current Croatian public sector accounting practise, and these are as follows (Vašiček, 2004):

- General government accounting information system has been regulated to be based on modified accrual accounts and the historic cost principles regarding balance sheet items, as a gradual transition towards accruals implementation and compliance towards the IPSASs. Even though actual amounts and financial statements are prepared on modified accrual accounting basis, budget amounts are still prepared on cash basis, which is consistent with the international trend that the reform of implementing accrual accounting for financial reporting comes as first and budgeting follows.

- Consistent appliance of internationally recognised and comparable analytical framework of financial and statistics reporting – GFS 2001, has resulted in establishing contextual and functional linkage concerning financial and statistics reporting. According to GFS 2001, public sector refers to general, i.e., central and local government, government entities and state owned enterprises.

- Existing obligation to make periodical and annual financial reports; obligation for consolidated semi annual and annual settlement of budget accounts of the Republic of Croatia; obligation to make approved budget(s) publicly available.

Starting from the concept that the encouragement for fully complying with IPSASs would enhance better understanding of Croatian public expenditures accounts at the international level, we view the process of complying with IPSASs requirements in Croatia as directed towards three goals (Vašiček, 2006):
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- the introduction of accruals in governmental financial reporting
- the reconciliation and eventually the consistency of accounting basis for financial reporting with the accounting basis for the budget, which would enhance more understandable and transparent public expenditures’ accounts
- the reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements.

Having in mind the given distinguished qualitative features of the existing Croatian Governmental accounting system as well as the ongoing process of complying with IPSASs, we point out certain existing procedures/solutions applied in Croatian public sector accounting practise that we find complying with those recommended by IPSAS 6, IPSAS 22 and IPSAS 24.

4.1 Compliance with IPSAS 24

According to IPSAS 24, entities that prepare and present financial statements under the accrual basis of accounting or that make their approved budget(s) publicly available are required to include a comparison of actual amounts with amounts in the original and final budget. Even more, this comparison is to be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted for the financial statements. As far as Croatia is concerned, as already mentioned, accruals have not yet being implemented in governmental accounting (nor for financial reporting nor for budgeting). However, approved budget(s) are made publicly available and therefore it is recommended for Croatia to make comparison of actual amounts with amounts in the original and final budget and make a reconciliation of actual amounts on a budget basis, with actual amounts presented in the financial statements. Even though accounting basis for budget execution and for financial reporting is the same (modified accrual basis where regular expenditures are recognised on accrual basis), budget amounts (the planning of the budget) are (is) based on cash basis. This enables distinguishing between expenditures that would be incurred and settled (paid) in current year, expenditures that would be incurred but not settled (paid) in current year, expenditures incurred in the previous year that are to be settled (paid) in current year. According to IPSAS 24, reporting on actual amounts should follow the same accounting basis as for the reporting on budget amounts, so that the comparison of these amounts can be made on the same basis of accounting as adopted for the budget (IFAC – IPSASB, 2006b).

In case of Croatia this cannot be done unless reports on actual amounts are reclassified regarding the accounting basis used. In addition this reclassification should be followed by the report on differences, between the report on actual amounts (resulting from the budget execution), and financial reports, that result from different accounting basis appliance. Such a comparison would serve to assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable (Vašiček, 2007b).

As emphasised, Croatia has implemented modified accrual accounting as a gradual transition from cash to accruals. Pursuing the Croatian accounting information system reform towards accruals implementation is in fact on the path of reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements. Since Croatian Governmental financial and statistics
information systems are founded on GFS 2001, that is accrual-based, gradual transformation of Croatian Governmental accounting information system from modified accrual-based to full accrual-based would result in accounting and statistics systems harmonisation, whilst the requirements for reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements are deemed necessary.

The legislative framework regarding governmental accounting development has been determined by The Budget act which defines the content of the semi-annual and annual reports on budget execution. It also imposes terms for reports’ preparation and their submission to the Government/Parliament. According to Jakir Bajo et al. (2008), the primary purpose of reporting on budget execution is to inform the users about:

- planned and actual annual and semi-annual revenues and expenses, receipts and expenditures presented in accordance to budget classifications
- changes in plans during the reporting period
- plans’ realisation
- the efficiency in achieving established goals.

Budget of the Republic of Croatia consists of two parts – general and specific part. Accordingly, the annual report on budget execution consists of these parts as well. The general section of the budget execution report consists of (Jakir Bajo et al., 2008):

- reporting on general part of the budget
- reporting on borrowing, debt management, and invoice financing.

Headers of the report on general budget execution are illustrated in Table 1.

**Table 1**

<table>
<thead>
<tr>
<th>Account no. from chart of accounts</th>
<th>Description</th>
<th>Tag</th>
<th>Original plan</th>
<th>Plan changes</th>
<th>Current plan</th>
<th>Accomplished in the reporting period</th>
<th>Index (7/6 * 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

*Source:* Adopted and adapted from Jakir Bajo et al. (2008, p.122)

For such reporting purposes two tables need to be drawn up, one of which contains information on financial assets and liabilities (in the beginning and at the end of the year, for the half-year period and at the end of the year), while the second gives an overview of certain transactions related to financial assets and liabilities, such as received and given loans, repayment of the loans, receivables and payables referring to the securities.

Specific section of the budget execution report consists of three reports – report on the execution of a particular part of the budget, report regarding guarantees, and report regarding the use of budgetary stocks. Three tables get published for the purposes of the specific section of the budget execution reporting and their headers are shown hereafter in Tables 2, 3 and 4.
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Table 2  A report on the execution of a particular part of the budget for the period from 01/01/XX to 31/12/XX

<table>
<thead>
<tr>
<th>Numeric designation of organisational and programme classifications</th>
<th>Name tags for organisational and programme classifications</th>
<th>Account no. from chart of accounts</th>
<th>Account name</th>
<th>Previous year’s execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
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</table>

<table>
<thead>
<tr>
<th>Original plan</th>
<th>Plan changes</th>
<th>Current plan</th>
<th>Execution</th>
<th>Indeks (9/8 * 100)</th>
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<tbody>
<tr>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
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</table>

Source: Adopted and adapted from Jakir Bajo et al. (2008, p.123)

Table 3  A report on the guarantees for the period from 01/01/XX to 31/12/XX

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condition of active guarantees on 01/01/XX year</td>
<td></td>
</tr>
<tr>
<td>Protested guarantees in the current year</td>
<td></td>
</tr>
<tr>
<td>The amount charged in the current year by protested guarantees</td>
<td></td>
</tr>
<tr>
<td>Issued guarantees in the current year</td>
<td></td>
</tr>
<tr>
<td>Warranties expired in the current year</td>
<td></td>
</tr>
<tr>
<td>Balance of active warrants on 31.12.XX year</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adopted and adapted from Jakir Bajo et al. (2008, p.123)

Table 4  A report on the use of budgetary stocks for the period from 01/01/XX to 31/12/XX

<table>
<thead>
<tr>
<th>Account no. from the chart of the accounts</th>
<th>Account name</th>
<th>Description of the purpose of spending</th>
<th>AOP tags</th>
<th>Completed in the reporting period, current year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Adopted and adapted from Jakir Bajo et al. (2008, p.123)

4.2 Compliance with IPSAS 6 and IPSAS 22

IPSAS 6 establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities in the separate financial statements of the controlling entity. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this standard should be applied in consolidating GBEs into
the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity’s separate financial statements (IFAC – IPSASB, 2000). In preparing and compiling the consolidated financial statements in Croatia, the entity combines the financial statements of the unit which conducts consolidation and its dependent entities, item by item, adding assets, liabilities, equity, revenues and expenditures. Thus, in the process of consolidating the intergroup balances, transactions, receivables and liabilities, revenues and expenditures, receipts and expenses among entities within the economic entity are eliminated in full (Roje et al., 2009).

Despite the fact that IPSAS 6 and IPSAS 22 apply to entities that adopt the accrual basis of financial reporting and budgeting and yet Croatian Governmental financial reporting model is based on modified accrual basis, we compare IPSAS consolidation requirements with the legislative framework applied in Croatia. Our results show that Croatian consolidation practise is in accordance with IPSAS requirements so that Croatian financial and statistics reports assure all the information recommended to be reported by IPSAS. However, the differences arise in determining which units are included in the consolidated reports of the State, since statistical bases of financial reporting use different consolidation rules to IPSAS 6. Thus, the differences arise due to the fact that the general government sector in Croatia conforms to Government finance statistics standards, while IPSASs require that all the units that are controlled by the central government and lower levels of government (units that carry out the consolidation) are consolidated, without discussing general government sector coverage (IFAC – IPSASB, 2006a). Therefore, when electing to make general government sector disclosures (especially for the countries that do not have the practice of preparing statistics reports) IPSAS 22 is to be applied, since applying IPSAS 6 would not enable comparison of financial statement information with general government sector information. In addition, level of financial statements consolidation in Croatia is determined by the existing legislative framework, entities financed from the budget and the enacted methodology. The difference when relating Croatian practise to the requirements of IPSASs also results from mandatory application of modified basis of accounting in the budgetary system of Croatia (Hladika, 2009).

Statistical bases of financial reporting such as the System of National Accounts 1993 and its updates, GFS 2001, and the European System of Accounts 1995, require governments to compile financial information about the general government sector. For statistical purposes, the general government sector comprises government controlled entities primarily engaged in non-market activities. Unlike IPSAS 6 that requires that all the units that are controlled by the central government and lower levels of government, as units that carries out the consolidation, are consolidated, without dealing with general government sector coverage, IPSAS 22 establishes requirements for preparing and presenting information about the general government sector. Thus, the disclosures required by IPSAS 22 provide a useful bridge to statistical bases of reporting (IFAC – IPSASB, 2006a).

For the purposes of reporting on general government sector in case of Croatia statistical framework is highly relevant. The general government sector in Croatia conforms to GFS standards and requirements for setting general government sector coverage. Precisely, Croatian general government sector includes the central state budget, budgets of local and regional governments and extra-budgetary users, meaning that it includes all the entities and units financed through the mentioned budgets. As the highest level of fiscal authority, Central State encompasses all subjects that perform functions of
the state as their basic activity. Central state consists of the state budget, users financed through the state budget and extra budgetary funds.

Besides disclosing the information about the general government sector, IPSAS 22 allows preparing and presenting information about the public enterprises. If a country follows this practice then the same country would not comply with IPSAS 6 for the purpose of avoiding double entry. As for Croatia is concerned, not all public enterprises are included in the consolidated financial reports of the State (Ministry of Finance of the Republic of Croatia, 2009), but have their own consolidated or non-consolidated financial statements.

5 Concluding remarks

The status and development of governmental accounting at the international level encourages strongly the accruals implementation. The implementation of accruals has taken many forms, i.e., accruals have been introduced for specific types of transactions only, for use at the agency level only, and for consolidated whole of government financial reporting. A few countries have also introduced accruals for budget appropriations. As countries move towards the accrual basis, it is becoming more likely that they comply with IPSAS or use IPSAS as the basis for introducing national accounting standards. Therefore, a wide range of national governments, with the intention to change to the accruals, has expressed the will to consult IPSASs. However, there is a considerable variety across countries in this field. While some countries decide on preparing IPSASs compliant financial statements, others apply their own national accounting standards by basing their own accounting policies’ development on IPSASs. In our opinion implementing accruals broadly refers to a harmonisation process that evolves in three directions: the convergence of IPSASs towards IASs and IFRSs, the harmonisation of national and international accounting standards for public sector, and the harmonisation of information systems (accounting systems and statistics system).

Those three directions refer to a convergence of public and private sector accounting systems and public and private sector accounting standards harmonisation, and are aimed to result in transparent, standardised and internationally comparable accounting basis, which would consequently decrease diversifications of accounting systems and improve the quality of government reports, most importantly regarding public expenditures.

This paper is designed to take stock of Croatian experiences with implementing accruals through complying with IPSAS. The aim of this paper is to examine to what extent a country, that has had its own accounting framework set up as a law-based system and has not had national public sector accounting standards developed, nor has applied accruals in government accounting system, nor has had IPSASs enacted as obligatory (but only recommended by the legislation), has complied certain existing accounting procedures/solutions with those recommended in IPSASs. In the course of considering the level of compliance with IPSASs in Croatian Government accounting system, we discuss the requirements of IPSAS 6, 22 and 24 and the existing accounting practise in Croatia, accordingly. We notice that the accounting reform has so far resulted in implementing quality solutions that represent a good basis for further adjustment and development of Croatian Governmental accounting information system towards more comprehensive appliance of IPSASs’.
We mostly discuss the IPSAS 24 implementation, referring to the requirements for reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements that are deemed necessary, due to the fact that the accounting basis adopted for the budget differs from the basis adopted for the financial statements. According to IPSAS 24 actual amounts should follow the same accounting basis as for the reporting on budget amounts, so that the comparison of these amounts can be made on the same basis of accounting as adopted for the budget, such a comparison cannot be conducted in Croatia unless reports on actual amounts are reclassified regarding the accounting basis used.

As for IPSAS 6 and IPSAS 22 are concerned, the existing procedures currently applied/accepted in Croatian public sector accounting practise, and information required for preparation and presentation of consolidated financial statements and requirements for governments that disclose information about the general government sector, comply with those recommended by the IPSASs, in a sense that Croatian financial/accounting and statistics reports assure the sufficient amount of relevant information disclosure regarding general government sector. However, as shown in the paper, there are certain differences that result from:

a. distinctions regarding the general government sector coverage
b. the fact that Croatian Governmental financial and statistics information systems are founded on GFS 2001
c. the fact that not all public enterprises are included in the consolidated financial reports of the state.

Having in mind that Croatia has implemented modified accrual accounting as a gradual transition from cash to accruals in its government financial reporting, that its budget(s) are publicly available, and that it has consistently applied internationally recognised and comparable analytical framework of financial and statistics reporting, we understand the process of complying with IPSASs requirements in Croatia as being directed towards three goals. These are: the introduction of accruals in governmental financial reporting, the reconciliation and eventual consistency of accounting basis adopted for financial reporting with the accounting basis adopted for the budget, and the reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements. Precisely, steering Croatian accounting information system reform towards accruals implementation is on the path of reconciliation and presentation of differences between statistics’ reports on public expenditures’ and the amounts in financial statements. Since Croatian Governmental financial and statistics information systems are founded on GFS 2001 that is accrual-based, gradual transformation of Croatian governmental accounting information system from modified accruals-based to full accruals-based would result in harmonisation of information systems (accounting systems and statistics systems).

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The perspectives of IPSASs introduction in Croatian public sector

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References


