Public Sector Accounting in Slovenia and Croatia

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The recent financial and economic crisis has intensified the constant challenge countries face to improve the information served by public accounting. The crisis has revealed that accounting based on the accrual principle provides a more transparent and complete overview of business activities and assets than accounting based on the cash principle. The paper analyses and compares the accounting systems in Slovenia and Croatia in order to assess the conditions for transparent and management-oriented financial information, and the progress of the implementation of the accrual principle in budgeting. It reveals that regardless of the stage of accrual implementation in national accounting legislation, the planning and execution of state budgets (that is, budgetary accounting) is still based on the cash principle.

Keywords: public sector accounting, budgetary accounting, accrual principle, cash principle, accounting reforms, Slovenia, Croatia

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1. Introduction

Public sector accounting can be described as a system which collects, records, classifies and summarises transactions occurring in the public sector and, pursuant to accountability and financial transparency requirements, provides information to users associated with public institutions (Kara, 2012). It represents the accounting systems of public sector entities and organisations. Public sector entities are entities that implement public policy through the provision of primarily non-market services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors. The public sector consists of governments and all publicly controlled or publicly funded agencies and enterprises and other entities that deliver public programmes, goods or services. The concept of the public sector is broader than simply that of core government, and may overlap with the not-for-profit or private sectors (Institute of Internal Auditors, IIA, 2011). In traditional approaches to public service delivery, the primary role of accounting is to provide a detailed record of expenditure for budgetary purposes and to compare this record with the budget. The treasury or the ministry of finance then summarises the information and presents a report to the council of ministers and parliament. Generally, the information is not of primary interest, as it is based on historic costs and therefore has little current managerial relevance. The fundamental objective of the accounting information in countries with traditional administrative systems is to provide information for economic planning and control (Hepworth, 2003). Specifically, accounting is meant to provide information for planning and executing the budget.

In the last three decades, public sector accounting and budgeting have experienced the remarkable trend of financial information systems reform under the idea of New Public Management (NPM) and New Public Financial Management (NPFM). The basic element of this trend is the improvement of management and decision-making at governmental institutions through the introduction of accrual accounting (Christiaens et al., 2015; Becker et al., 2014). The global economic crisis has underscored the importance of the accountable and transparent use of public funds, particularly in light of deteriorating fiscal positions and rising public debts. There is a growing consensus that good information on governmental activities matters. This information can help policy makers better navigate their reform agendas and is also essential to public and financial institutions, particularly in light of increased concerns over the sustainability of public accounts. Overall, public sector accounting and budgeting systems can either strengthen or weaken the trust that underpins relations in society. If ever there were a time to establish high standards for transparency and accountability in public finance, it is the present.

Accrual accounting is an accounting method under which transactions are recognised as the underlying economic events occur, regardless of the timing of the related cash receipts and payments. This contrasts with cash accounting, under which revenues and expenditures are recognised when cash is received and paid respectively. A number of countries have undergone a gradual or radical change in public sector accounting, mainly by implementing the accrual principle (Khan, Mayes, 2009). At the same time, countries considering public sector accounting reforms are under the moral sway of "good practices" from countries that have already implemented the International Public Sector Accounting Standards (IPSAS) promoted by the International Organisation of Supreme Audit Institutions (INTOSAI) (Christiaens et al., 2015).

A review of the literature shows that a number of countries have undergone reforms of public sector accounting systems, the main focus of which has been on IPSAS implementation. Slovenia lags behind considerably in this area compared to old and even new EU member states. The discussion on public sector accounting system reform and the introduction of the accrual principle in Slovenia has only just commenced at the highest political levels. At this stage, efforts are primarily focused on adopting rules, coordinating the main stakeholders on the issue and predictive analyses of the potential implications of accrual basis accounting in the public sector.

The paper focuses on the following interrelated research objectives:

- analysis of the general advantages and disadvantages of a public sector accounting system based on the accrual principle;
- comparison of the accounting and budgetary systems in Slovenia and Croatia with regard to key accounting features.

The methodology applied in the paper is based on an in-depth review of the literature and structured interviews with experts and researchers from Slovenia and Croatia.

2. Reforming Accounting Principles (Systems) for Budgeting

In the second half of the last century, a radical shift occurred in management tools, information technology, approaches to decision-making, performance measurements, accounting procedures and accounting systems. These changes were more transparent in the private sector than in the public sector. In many areas of the public sector, and especially in central government, countries still employ accounting procedures and standards that have been in use for over a century.

2.1. Literature and Regulation Review

In public sectors worldwide the past 20 years have been marked by radical organisational, managerial and accounting reforms. Public sector accounting reform is part of the general public sector management reforms implied by the concept of New Public Management (NPM). The aim of these transformations is to enhance the efficiency and accountability of public service delivery. The prevailing tendency has been to implement management and accounting practices typical of the private sector (such as accrual and cost accounting, performance budgeting, and government-wide accounting) in the public context. The idea of striving for rational economic operations is characteristic of a business point of view in government; among other things, this means a call for the abandonment of cash accounting systems and the introduction of the accrual accounting systems widely used in the for-profit sector (Barton, 2004; Grossi, Soverchia, 2011). NPM has its background in reforms carried out in the United Kingdom under Margaret Thatcher. These reforms were viewed as highly political and ideologically charged at the time; over the years, the ideological element of the reforms has been de-emphasised and the idea has become a trend. Public sector accounting reform now manifests itself in the transition from cash flow to accrual principles in accounting.

Governmental accounting reform is a shift from a cash flow and cash balances concept to a total economic resources concept. Specifically, it implies the use of a broader range of metrics that encompass the total economic resources of governmental entities instead of just – or primarily – cash resources. Accrual accounting may provide more comprehensive information (assets, liabilities, revenues, expenses, net assets and changes therein) about governmental entities and may better indicate whether these entities are operating economically and efficiently. According to Lüder et al. (1992) a more informative accounting system performs two functions: it supplies comprehensive and reliable information on public finance and provides a basis for improved financial control of governmental activities (Ouda, 2003a).

Industrialised countries have adopted the latest innovations out of a wish to accelerate public sector reform, and developing and transition countries have followed their lead. Accrual basis financial reporting is a key accounting technology associated with public sector management reforms. An extensive international study (Lüder, Jones, 2003) focusing explicitly on governmental accounting reforms in different European countries and at the European Commission showed that accounting reforms entail the introduction of accrual accounting in governmental organisations. At the same time, an international comparative study (Brusca, Candor, 2002) concluded that the accrual accounting principle predominates in Anglo-Saxon countries, while Continental European countries are still in the process of converting to accrual accounting by adopting modified cash and modified accrual systems instead of complete or full accrual systems (Vašiček et al., 2008).

The IFAC-PSC (International Federation of Accountants – Public Sector Committee, 2003) has identified four different accounting bases: cash, modified cash, modified accrual and full accrual. More recent scientific papers use more precise definitions that express the extent to which accrual accounting has been adopted, e.g. full accrual except for consolidation, full accrual for current balance sheet items, cash (budgetary) accounting for fixed assets, etc. Cash and accrual represent two end points on a continuum of possible accounting and budgeting bases. With regard to public sector activities, OECD member countries have traditionally been found at the cash end of the continuum. A modified cash accounting system recognises transactions and other events on a cash basis during the year, but also takes into account unpaid accounts and/or receivables at the end of the year. Books are kept open for around a month after the end of the year, so the modified accrual accounting system can recognise transactions and other events on an accrual basis, but certain classes of assets or liabilities are not recognised. A typical example is the expensing of all non-financial assets at the time of purchase (Christiaens, Reyniers, 2009).

In recent years, a major shift towards the accruals end of the continuum has occurred in OECD member countries. About half the member countries have adopted accruals to one degree or another (Matheson, 2003). Recent research has revealed that a significant shift towards accrual accounting occurred from 2009 to 2012, and that only 17 per cent of "old" European central governments are still on cash accounting (all old members have adopted accrual accounting in local-level government) (Christiaens et al., 2015). At the same time, cash accounting is still widely used for reporting purposes. This phenomenon is a clear indication that cash accounting serves purposes that are not adequately covered by accrual accounting. A review of international literature on governmental accounting reform reveals that the various scientific research contributions can mainly be categorised into three types:

– descriptive studies of governmental accounting reforms (Coy et al., 1994; Christiaens, 2000);
– empirical studies of the implementation of accounting reforms (Christiaens, 1999; Jones, Pendlebury, 2004);
– theories explaining why governments choose to adopt accrual accounting (Lüder et al., 1992).

The empirical studies generally reveal that due to various factors, the design and implementation of governmental accounting reforms has not been successful and that deviations occur in uncontrolled ways. Some reforms have had unintended effects, either because of the misuse of information or because insufficient attention was paid to the application of the reforms. In some cases, the availability of output information exposed poor performance at organisations. Rather than using the information to improve future performance, it quickly became a superfluous information flow that was not properly used in decision-making or monitoring the organisation. In other cases, reforms were poorly designed, and therefore did not deliver on their promises. Schemes for measuring outputs do not always pay attention to practical applications and actual, day-to-day use (Christiaens, Rommel, 2008).

Internationally accepted professional frameworks for public sector accounting are outlined in the International Public Sector Accounting Standards (IPSAS) and the Manual of Government Finance Statistics. IPSAS govern recognition, measurement, presentation and disclosure requirements for transactions and events in general purpose financial statements. The International Public Accounting Standards Board (IPSASB, 2007: 5–8) has issued accounting standards for both cash basis and accrual basis accounting. The accounting standards for accrual basis accounting are based on the IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards) and retain the accounting procedures defined therein; they also include original IAS text where needed. International Public Sector Accounting Standards (IPSAS) are independently developed and as such are considered to be generally accepted best practices and accounting solutions for public sectors all over the globe; they introduce the strictest possible standards for transparency and clarity in the operations of public sector organisations (Mladenović, 2011). The other accounting framework for government finance in the EU is the Manual on Government Finance Statistics. Published in 2001, The Manual on Government Finance Statistics describes a specialised macroeconomic statistical system (the GFS system) designed to support fiscal analysis. The Manual outlines economic and accounting principles to be used in compiling statistics and guidelines for the presentation of fiscal statistics within an analytic framework that includes appropriate balancing items. The process of introducing IPSAS is closely related to the existing reporting system based on the ESA 2010 statistical methodology. IPSAS stress their relation to the European System of National and Regional Accounts (ESA 2010). Namely, IPSAS place great emphasis on the disclosure of data relating to the state sector, as this improves the quality of statements prepared on this basis. When IPSAS use the term "the state sector", they refer to a statistical term defined in all significant statistical methodologies, while the ESA 2010 is based on the accrual accounting system, thus establishing another link with IPSAS.

In the world of public sector accounting, the adoption of accrual accounting has become somewhat of a foregone conclusion, with recommendations from international organisations such as the IPSASB and the OECD encouraging the switch. In the face of the widespread and streamlined adoption of the accrual principle among EU member states, some researchers have expressed doubts about the usefulness of the trend (Grossi, Soverchia, 2011; Antipova, Bourmistrova, 2013; Brusca Aliarde, Montesions Julve, 2014). Some of these doubts are voiced from organisational, managerial and human resources perspectives, while others see the main problem in the duality of financial and budgetary accounting systems.

2.2. Cash Versus Accrual Accounting

As mentioned in the introduction, there are two basic accounting methods used to determine when and how income and expenses are reported in the books: the cash method and the accrual method. The two methods differ only in terms of the time at which transactions, including sales and purchases, are recorded. Under the cash method, income is not recorded until cash is actually received, and expenses are not recorded until cash is actually paid out. Revenues and expenditures are therefore recognised only when payment is made or received. With the cash method, the financial result for the period is set as the difference between the money received and the money paid. This method also provides users with information about cash resources received in a given period and how these resources were spent, and about the balance on the reporting date. It does not provide complete information about the assets and liabilities of public sector entities, and there are no balance sheets other than the cash balance. Some authors (Müller-Marques, 2009; Jones, Pendlebury, 2000) have pointed out weaknesses of cash accounting: expenditures can be stopped by suspending the payment of invoices outstanding, a large portion of liabilities are not recorded in the statements, etc. Analogous tricks can, however, be found in accrual accounting. Vinnari and Nasi (2008) highlight that the heterogeneity of accrual accounting applications may lead to creative accounting solutions, and that, as a result, accounting information may not be sufficiently transparent, users may be misled and accounting could fail to properly fulfil its accountability function.

Many countries, including Great Britain, New Zealand, Australia and Canada, have already reformed their public sector accounting in line with the trend towards accrual accounting. The accounting system for the public sector influences the financial reports of legal entities of public law, and consequently the state budget (Roje, 2006). Accrual accounting provides a broader measure of the overall fiscal stance than cash accounting. It therefore facilitates better assessments of the sustainability of fiscal policy. For example, in addition to traditional debt, it also includes quasi-debt liabilities (e.g. future obligations to pay civil service pensions), depreciation, environmental liabilities, accounts payable, accrued interest, asset valuation changes, etc. Accrual reporting also enhances the quality of decision-making through improved balances and accuracy in macro-economic forecasts, and by enabling the monitoring of the composition of fiscal accounts. Because it provides a longer-term perspective for fiscal policy implications, and is more consistent with the accounting conventionally used in the private sector, it is also supported by credit rating agencies and financial markets. Overall, the accrual framework enhances confidence and transparency and contributes to faster economic growth, although it can give rise to misleading interpretations and the manipulation of results (Tudor, Mutiu, 2006; Grossi, Soverchia, 2011).

The cash accounting principle has many constraints, some of which are so glaring as to place its use in serious doubt. Strict use of the cash method does not require a statement of assets and liabilities insomuch as these categories are not reflected in cash flow. The purchase of assets creates expenditure which is completely deducted in the period of calculation. As a result of this approach to event registration, assets are not listed in financial statements. On the other hand, certain liabilities must be registered upon maturity or at the moment they create an expenditure. Accounting with the cash flow principle alone thus erodes the quality of accounting information. A portion of transactions in a given period go unregistered, although this does not mean they will not influence the result in the net period. Lastly, cash principle accounting does not support the monitoring of changes in assets and liabilities (Vašiček, Vašiček, 2000).

Cash basis accounting does, however, present important advantages as far as financial planning is concerned. Upon adoption, the financial plans of public sector entities become the state budget. The resulting rights from the budget (of financial plans) are based on cash and are recorded on a cash basis. Control of receipts and expenditures in cash accounting is much easier than control of revenues and expenses in accrual accounting. Financial statements based on the cash principle present information on receipts and expenditures using the same accounting principle – the cash principle – which makes coordination easier (Mladenović, 2011).

Despite the arguments in favour of the accrual principle, the matter-of-factness of public sector reforms aimed at introducing this principle seems to pose considerable risks: the potential for business-oriented results that are inappropriate for the public sector; the claimed benefits of reforms that have not been verified in practice, while the costs are accepted as substantial; disparities in the recognition and valuation of assets, etc. (Christiaens, Rommel, 2008; Brusca Aliarde, Montesions Julve, 2014).

2.3. Cash Versus Accrual Budgeting

Undoubtedly, both concepts (principles) have their pros and cons. The Association of Chartered Certified Accountants and the IMF have expressed doubts as to the necessity and rationality of accrual basis accounting. These and other professional bodies require a different set of standards for public sector financial reporting, while doubts are noticeably present regarding the unselective convergence of public accounting and the accrual basis accounting used in the private sector. The purpose of public sector accounting is to supply information for budgetary accounting. But there is an important distinction between these two accounting applications (Matheson, 2003):

- The budget is a future-oriented financial plan for allocating resources among alternative uses, both within the government and between governments and between the government and the rest of the economy.
- Financial reporting retrospectively describes the results of an entity's financial transactions and events in terms of the entity's financial position and performance.

In the international context, there are three possible models for harmonising accounting and budgeting (Brusca, Condor, 2002):

- The accounting system is limited to the registration of budgetary operations, which means that financial accounting is limited to budgetary information and only transactions that affect the budget are registered (Germany).
- The budgetary system and the accounting system are connected, which means that a connection between accounting and budgetary information is established in such a way that the accounting system allows for the monitoring of the budget. Given that resources are allocated through the budgetary process, the budget is converted to the primary instrument for accountability (Italy, Portugal, France, Romania and Spain).
- The budgetary system and the financial accounting system represent two independent systems, which means that there is no connection between budgetary and accounting information. On the one hand, accounting statements are produced and included in a financial report, and on the other, budgetary statements are produced pursuant to legal requirements. Public institutions produce financial information by presenting the same kinds of statements as corporate entities, without taking into account budgetary obligations (Australia, Canada, New Zealand, and the United Kingdom).

Accrual accounting under the requirements of Standard 2-IPSAS obliges entities (organisations) to prepare and present financial statements in line with both principles (cash flow and accruals), so cash-flow-based financial statements are an integral part of the financial statements for each period (IPSASB, 2007).

Partly as a result of the global economic crisis, public sector finances are under heavier scrutiny than ever before, and this is reflected, among other things, in the growing trend towards the accrual principle in public accounting. Nevertheless, many countries still prepare their accounts on the cash principle. Approximately half of the OECD countries have made modifications as far as the principle of transaction registration is concerned, but only a few have adopted the accrual principle in the budgetary process. In the long term, the accrual principle influences the budget because revenues are registered at the moment the service is delivered and not at the moment cash flow is registered. Also, expenditures are registered at the moment costs are realised, regardless of cash flow. Liabilities in the balance sheet are registered as expenses in the current period, even if no funds have been earmarked (Zafreda, 2010).

3. Public Sector Accounting Regimes: A Comparison of Accounting in Slovenia and Croatia

Some countries began introducing public sector accounting reforms in the 1990s or as early as the 1980s. Throughout the 1980s, Canadian governments significantly changed their financial reporting practices, moving from cash basis to accrual basis accounting, and from separate accounting reports to consolidated financial statements. In part, those changes were spurred by the work of the Public Sector Accounting and Auditing Board (PSASB) of the Canadian Institute of Charted Accountants. But the profession alone could not force governments to adopt its recommendations. Acceptance and adoption of PSASB-recommended financial reporting practices could only be achieved with the cooperation of governments and the encouragement of legislative auditors, who succeeded in convincing governments that cash basis accounting did not provide them with complete and accurate information for decision-making and accountability. Even though the accounting standards recommended by the profession in Canada were meant to be adopted at will, virtually all governments in Canada have changed their accounting practices and drifted further along the continuum towards accrual accounting, at least in their financial statements (International Federation of Accountants – IFAC, 1996). New Zealand's implementation of the new financial management system is generally regarded as a success. At the start of the implementation, there was general dissatisfaction with the status quo. Sustained commitment from political and senior management encouraged most public sector managers to welcome the change. An emphasis on communications and a careful ordering of processes ensured that risk was well managed. Apprehensions about costs and accounting policy issues, and concerns that the results would be misinterpreted failed to materialise to any considerable extent (International Federation of Accountants – IFAC, 1994). Canada and New Zealand, as well as the United Kingdom and Australia, have already adopted accruals in financial reporting and in budgeting. The experiences of countries that have conducted public sector accounting reforms differ, as the field is very complex and contains many factors that could potentially affect reform implementation (Vašiček et al., 2008). Accrual accounting has also been implemented in Romania, France and the United Kingdom, and strategic plans are in place for reforms in Austria, Macedonia and Slovenia.

A study by Roje (2007) echoes the findings of an international comparative study by Brusca and Candor (2002) but also includes transition countries. Roje's study found that the predominance of accrual criteria in public sector accounting is largely an Anglo-Saxon phenomenon, and that Continental European countries are still in the process of switching to accrual accounting for both reporting and budgeting. Continental European countries, and in particular transition countries, have to date adopted modified versions of the accrual principle. According to Roje (2007) and CEF, 2015 data on countries in transition (Poland, Slovakia, the Czech Republic, Romania and Croatia) revealed several discrepancies in the adoption of a more complex accounting basis. This led to the conclusion that for this set of transition countries, the transitional stage in the process of adopting accruals in governmental accounting and reporting has been characterised by inconsistency. Consequently, Central and Eastern European countries still show serious weaknesses in accounting and budgetary reporting.

In several cases, countries have been unable to produce national accounts conforming to the ESA 2010 framework. In most cases, external auditors do not provide an alternative international standard for government accounts. Serious delays in reporting on budget implementation have occurred in some countries.

3.1. Slovenia

The national framework for public sector accounting and the preparation of financial statements for public sector entities is laid out in the Public Finance Act and the Accounting Act, and their accompanying rules. The Public Finance Act is the legal basis for budgetary and financial planning and execution, while the Accounting Act governs the bookkeeping (recording) of transactions caused by budget execution. "The provisions of the Accounting Act shall apply to bookkeeping and the preparation of annual reports for 4 main entities: state and municipal budgets, indirect and direct budget users, the Health Insurance Institute of Slovenia (ZZZS), and the Pension and Disability Insurance Institute of Slovenia (ZPIZ)" (Article 89 of the Public Finance Act). Annual reports consist of a balance sheet, income statements, notes to financial statements, and a business report (Article 21 of the Accounting Act). The financial statements of the four public finance treasuries in Slovenia are prepared on the cash flow principle. The financial plans of the state, the municipalities and both insurance funds (ZPIZ and ZZZS) are prepared, approved and implemented on the cash flow principle. In Slovenia, direct and indirect budget users keep books and prepare financial statements on the cash flow principle, while some indirect budget users[1] use both the cash and accrual principles. Although it has a basis in the Accounting Act, double bookkeeping causes a lot of additional work, confusion on part of those receiving the accounting information, a lack of transparency and a number of reporting problems.

The Slovenian public accounting system is a modified version of an accounting system based on the cash flow principle. Research of public sector accounting legislation reveals that public entities in Slovenia prepare their financial reports on a cash flow basis, but that in some cases, they are also obligated to prepare reports using the accrual principle. The reform process in the public sector (known as Public Sector Management) in general, and in public sector accounting in particular, has been going on for several decades, and Slovenia has begun to consider the possibility of modifying its accounting principles. Over the past few years, all inter-

[1] Indirect budgetary users with an obligation to use accrual bookkeeping are public institutions; public agencies or public funds whose founder and owner is the state or a municipality, and which carry out a public service activity in the public interest with funding from the state or municipal budgets; the Health Insurance Institute of Slovenia; the Institute for Pension and Disability Insurance of Slovenia or other sources.

national professional analyses have espoused the virtues of the accrual principle to the public sector accounting profession. They cite the positive effects of this approach, including the needs and requirements of users of financial reports for complete information in advance (Zafreda, 2010).

As far as budgetary accounting is concerned, Slovenia is still in the cash basis stage. Stock and transactions concerning budgetary planning and execution are still on a full cash basis, although external (EU) and internal (The Court of Audit of the Republic of Slovenia) entities have been pressuring the legislator to implement certain changes.

3.2. Croatia

The legislative framework for governmental accounting is determined by The Budget Act and a supplementary set of regulations. The regulations (decrees, instructions and policies) define and interpret certain parts of The Budget Act more precisely and thus enable faster and easier qualitative adoption of the mandated solutions. According to those regulations, all general government entities (central and local government and their component entities, i.e. departments, boards, agencies, commissions, etc.) are obligated by law to apply the governmental accounting and financial reporting model.

The fact that all entities within the general government are obligated to use this model ensures complete accounting and reporting on general governmental activities. Croatia has mandated a uniform chart of accounts and the consistent application of rules for recording cash transactions and economic events, with the aim of ensuring a standardised database for additional data analysis when needed. As far as information on the budget (budget planning and budget execution) and accounting and financial reporting is concerned, the application of the organisational, economic, functional, local and programme classifications of the budget is obligatory.

Beginning in 2002, Croatia left the cash flow system and established a new governmental accounting system based on the accrual accounting principle. The system is a modified or adjusted accrual principle system for which national public sector accounting standards have not been developed. This is mainly due to the fact that the accounting framework in Croatia was set up as a law-based system. Despite the non-existence of national public sector accounting standards, the application of IPSAS has not been enacted as obligatory, although the implementation of cer-

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tain accounting solutions defined by the IPSAS is recommended by the aforementioned Croatian regulations. Consequently, the majority of existing procedures/solutions applied in Croatian public sector accounting comply with those recommended in the IPSAS. Requirements for further adjustments in the Croatian governmental accounting information system, aimed at convergence with international trends, are therefore viewed through the introduction of accruals and consequently through encouragement of full compliance with IPSAS, which is expected to enhance understanding of Croatian public expenditure accounts at the international level (Roje et al., 2012).

The development of Croatian budgetary accounting has gone through several stages in line with the demands of international financial institutions, but also in response to the country's own needs for information on budgetary spending. This has resulted in transparent public spending and the accountable management of public finances. EU membership was another important factor in the development of Croatian budgetary accounting (Broz Tominac et al., 2015).

3.3. A Comparison of Slovenia and Croatia

Slovenia and Croatia share several features as a result of the common origins of their public sector accounting and budgeting systems (The Socialist Federal Republic of Yugoslavia). Following deconsolidation in the 1990s, each country followed its own path in developing its political, legal, economic and social systems. Both countries eventually became EU member states. A cross section (Table 1) of the state of public sector accounting in both countries reveals certain differences. In principle, Slovenia enforces the cash flow principle based on national accounting rules, while Croatia uses a modified accrual accounting principle. Slovenia has not changed its system over the past 20 years, but is seriously considering the transition to accrual basis accounting. There are two possible approaches Slovenia can take in carrying out the transition to accrual basis accounting in the public sector. The first is the immediate adoption of accrual basis accounting, while the second would offer the possibility of a gradual transition (adoption). With a gradual transition, in the first phase all public finance funds would continue to use cash basis accounting to prepare their books of account and record income and other receipts as well as expenses and other outflows, while all direct and indirect budget users both at the state and local levels would begin applying accrual basis accounting methods (Janc, 2011).

Croatia has gone through multiple stages and currently uses a modified accrual accounting principle for its public sector. Since 2002, Croatia has used its own accounting framework, which is set up as a law-based system. National public sector accounting standards have not been developed, nor have accruals been applied in the governmental accounting system; IPSAS have been enacted as obligatory (but are only recommended by the legislation), and certain existing accounting procedures have been brought into conformity with the recommendations of IPSAS. The gradual transition from cash to accruals has led Croatia to introduce accruals in governmental financial reporting; other developments include the reconciliation (and eventual harmonisation) of the accounting basis adopted for financial reporting with the accounting basis adopted for the budget, and the reconciliation and presentation of differences between statistical reports on public expenditures and the amounts in financial statements (Roje et al., 2012).

Discussions on improving governmental financial reporting by steering public sector accounting towards accrual basis accounting inevitably lead to the question: What is the ultimate purpose of improving the informational value of the financial reports of public sector organisations? To be sure, the answer lies in the state budget or budgetary accounting. The budget accounting systems of most European countries, including Slovenia and Croatia, are based on the cash flow principle. Currently only Australia, New Zealand, Denmark and the United Kingdom use an accrual budgeting system (Vašiček et al, 2008). The significant trend towards the use of accruals in the financial statements of public sector entities has not resulted in accrual budgeting. Many assume that the focus of good fiscal policy must be primarily on cash fiscal aggregates, while others believe that accrual accounting is often introduced as an accounting system separate from budgetary accounting, which remains on a commitment and cash (or near cash) basis. Pragmatically speaking, the wealth of additional data provided in the accrual accounts is just that: additional data. These data do not necessarily change the way a government functions, not least because budgets still occupy the lion's share of the public attention in considerations of financial matters (Jones, 2004).

Table 1: Accounting and Budgetary Systems in Slovenia and Croatia

Criteria	Slovenia	Croatia
Enactment date	2000	2002
Public sector accounting system	Adjusted (modified) cash	Adjusted (modified) accrual
System specificities	– Direct budgetary users register transactions on a cash basis – Indirect budgetary users register transactions on both cash and accrual bases – Procurement of fixed assets causes expenses in the reporting period in which the purchase is made (is not capitalised)	– Regular expenditures and liabilities recognised on an accrual basis – Revenues generally recognised on a cash basis (only some recognised on an accrual basis) – Procurement of fixed assets causes expenses in the reporting period in which the purchase is made (is not capitalised)
Accounting reporting	– Balance sheet – Income and expense statement – Disclosures to the statements – Appendix for direct budgetary users: 1. Report on the state and movement of tangible and intangible fixed assets 2. Report on the state and movement of long-term investments and loans 3. Statement of financial receivables and investments 4. Statement of funding account – Appendix for indirect budgetary users: 1. Income statement on a cash basis 2. Income and expense statement by type of activity 3. Statement of financial receivables and investments 4. Statement of funding account	– Balance sheet – Income and expense statement – Cash flow statement – Financial statement of changes in the value of assets and liabilities – Disclosures to the statements
Budgetary accounting	Cash flow principle	Cash flow principle

Budgetary reporting	1. General part: – Statement of revenues and expenditures – Statement of financial receivables and investments – Statement of financing 2. Special part 3. Plan of developmental programs 4. Explanation of budget accounts 5. Report on the objectives for policy, programmes and sub-programmes	– Statement of revenues and expenditures – Statement of financing – Special budget part consisting of budgetary user expenditures – Report on borrowing in domestic and foreign money and capital markets – Report on the use of budgetary reserves – Report on state guarantees issued and expenditure from state guarantees – Execution of the financial plans of indirect budgetary users – Explanation of revenues and receipts, expenditures and expenses of indirect budgetary users

Source: author, 2015

The comparison of public sector accounting and budgeting systems in Slovenia and Croatia shows that development has led in rather different directions. While Slovenia has enacted the cash flow principle as the cornerstone of its public accounting system (with some adjustments), Croatia has gone a different route. Slovenia has not changed its public accounting since 2000, while the idea of programme budgeting was first implemented in the general governmental budget for 2001. According to the National Reform Programme 2015–2016, several changes are expected in the field of public finance legislation, specifically in the Public Finance Act and legislation derived therefrom. At the moment, the accrual principle is an exception to the rule and is used only in the accounting of indirect budgetary users; other entities register transactions and prepare financial statements using only the cash flow principle.

Until 2002, the basic principle of Croatian public accounting was that of cash flow, but since then several adjustments have been made. Revenues are still registered using the cash flow principle, while the accrual principle is used to enter expenditures in the books. Investment expenditures are registered at the moment of acquisition, and consequently do not lead to depreciation expenditures. Within the budgetary system, grants are not expressed as revenue/expenditure, directly changing their own sources.

Acceptance of accruals has been much wider in financial reporting than in budgeting. This does not appear to be a temporary snapshot as countries migrate to accrual budgeting, but rather the firm stance of a number of EU member states (for example Spain, Belgium, Italy, France) (Brusca Aliarde, Montesions Julve, 2014). Two reasons are commonly cited to explain this. Firstly, an accrual budget is believed to pose a risk to budget discipline. The political decision to spend money should be matched by reports on the spending in the budget. That is only possible with cash. There is a fear that if capital-intensive projects (for example) could be voted on with only the commensurate depreciation expense being reported, expenditure for such projects would increase. Secondly, and in somewhat of a contradiction to the first reason, legislatures have shown resistance to the adoption of accrual budgeting. This resistance is often due to the sheer complexity of accruals. In this context, it is noteworthy that the legislatures in those countries that have adopted accrual budgeting generally have a relatively weak role in the budget process (Blöndal, 2002). At the same time, it should not be forgotten that cash accounting for its part does not provide information about the value of assets used or about liabilities incurred through certain decisions. Consequently, financial statements and the budget do not provide information about how current spending influences changes in the surplus of assets over liabilities (Mladenović, 2011). Under accounting on a cash basis, revenues will only be recognised in financial statements for the period in which the cash is received. However, the cash receipts do not draw a distinction between current receipts and capital receipts. An excess of receipts over payments therefore cannot be called income because the said receipts might constitute capital receipts. As a result, the revenues generated in a given fiscal year will not be known. This makes it difficult to evaluate the efficiency of the collection staff and to discover losses in the collection process. Additionally, under cash basis accounting receipts and revenues are identical, since there is no difference between the point at which they are recognised and the point at which they are collected (Ouda, 2003b).

4. Conclusion

Since the 1980s, a radical wave of organisational, managerial and accounting reforms has swept through the public sectors of many countries and jurisdictions. The trend in public accounting is away from cash flow and towards the accrual principle. Income and expense statements based on the cash flow principle facilitate only yearly monitoring of the budget and may cause financial instability because they do not provide data for the management of assets and liabilities. Cash flow accounting is appropriate in circumstances where a minor share of liabilities are long-term; lately, however, countries have seen a rise in their long-term liabilities, e.g. liabilities for social security, unemployment and pensions.

The comparison of public sector accounting systems in Slovenia and Croatia reveals certain differences. Both countries apply a "modified version" of each principle, which enables an overview of assets and liabilities but does not support effective cost accounting or accurate statistical reporting in accordance with the ESA 2010 framework. In Slovenia in particular, budgetary revenues and expenditures are recorded using the cash flow principle, which results in a general government deficit being calculated on the same principle. On the other hand, Croatia's double path recording system seems to be causing even more confusion in reporting.

Public sector accounting reform is but one part of the changes public management has, as a matter of necessity, undergone over the past few decades. Accounting, whether based on cash or accruals, is just one of many "business" functions in the public-sector-as-a-system. That is why accountants will have to continue working closely with top and line management to ensure that they have the financial information they require to fulfil their responsibilities effectively.

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PUBLIC SECTOR ACCOUNTING IN SLOVENIA AND CROATIA

Summary

The recent financial and economic crisis has intensified the ongoing challenge countries have been facing to improve the information served by public accounting. The crisis has revealed that accounting based on the accrual principle provides a more transparent and complete overview of business activities and assets than accounting based on the cash principle. The paper analyses and compares accounting systems in Slovenia and Croatia in order to assess the conditions for transparent and management-oriented financial information and the progress of implementation of the accrual principle in budgeting. It reveals that, regardless of the stage of accrual implementation in national accounting legislation, the planning and execution of state budgets (that is, budgetary accounting) is still based on the cash principle.

Keywords: *public sector accounting, budgetary accounting, accrual principle, cash principle, accounting reforms, Slovenia, Croatia*

RAČUNOVODSTVO JAVNOG SEKTORA U SLOVENIJI I HRVATSKOJ

Sažetak

Recentna financijska i gospodarska kriza intenzivirala je izazove s kojima se države suočavaju prilikom poboljšavanja informacija koje treba osigurati računovodstvo javnog sektora. Kriza je pokazala da računovodstvo temeljeno na obračunskom načelu daje transparentniji i potpuniji pregled poslovnih aktivnosti i imovine od računovodstva temeljenog na novčanom načelu. U radu se analiziraju i uspoređuju računovodstveni sustavi Slovenije i Hrvatske kako bi se ocijenili uvjeti za dobivanje transparentnih i menadžmentu korisnijih informacija te na napredak u primjeni obračunskog načela u budžetiranju. Pokazuje se da je planiranje i izvršavanje državnih proračuna (proračunsko računovodstvo), bez obzira na fazu u primjeni obračunskog načela u nacionalnim zakonodavstvima o javnom računovodstvu, i dalje zasnovano na novčanom načelu.

Ključne riječi: *računovodstvo javnog sektora, proračunsko računovodstvo, obračunsko načelo, novčano načelo, računovodstvene reforme, Slovenija, Hrvatska*