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JEL Classification M40, M41, M48  
Original scientific paper  
<https://doi.org/10.32910/ep.73.1.4>

## **ANALYSIS OF PUBLIC MANAGERS' ATTITUDES TOWARD CONSTRAINTS FOR IMPLEMENTATION OF PUBLIC SECTOR ACCOUNTING REFORM IN CROATIA**

*Applied accounting basis affects the scope of accounting information that are presented in the financial statements and it indicates the financial position and performance of a business entity in a given period. For many years, accrual basis for accounting has been applied in the private sector, but in the public sector full application of accrual basis is still rare and insufficiently represented. This paper investigates and analyses the constraints for the implementation of public sector accounting reform and for the implementation of the accrual basis in public sector accounting. The research was conducted through a survey questionnaire on a sample of 130 budgetary users in 2012 and 242 budgetary users in 2018 in Croatia. Respondents were public managers. Research results showed that the most significant constraints for public sector accounting reform can be summarised in four groups: human resources, financial resources, IT support and long duration and complexity of the process. Public sector managers evaluated financial resources as the most significant constraint. The scientific contribution of this paper is reflected in the supplementation of the literature on public sector accounting reform since it systematically investigates and analyses the constraints that occur in the processes of reform. In addition, scientific contribution is contained in presenting the results of the primary research about the constraints for the implementation of public sector accounting reform*

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*and the implementation of the accrual basis in public sector accounting in Croatia.*

**Key words:** *accrual basis, public sector accounting, constraints for the implementation of accrual basis, public sector accounting reform, Croatia*

## 1. INTRODUCTION

A wide spectrum of different modifications of cash and accrual basis for accounting is applied today for presentation of business events in public sector accounting. Applied accounting basis determines the moment of recognition of the business event effects as well as the scope of accounting information that are presented in financial statements. In doing so, the accrual basis for accounting provides comprehensive information about all economic categories and provides a complete picture about the financial position and performance of the public sector. Timely, reliable, and comprehensive accounting information is needed to make business decisions, whereas quality business decisions and effective and responsible management in the public sector are crucial for building public confidence in the state.

In order to ensure the stability and transparency of public sector and strengthen public confidence in public management and its responsibility in managing public resources, many countries have begun reform processes in the public sector. Part of this reform refers to the accounting reform, which is manifested in the gradual abandonment of the cash basis and the implementation of the accrual basis in the public sector accounting. Guthrie, Olson and Humphrey (1999) stated that accounting reform is an important part of New Public Management as a comprehensive process of public sector reform, pointing to the need to introduce the business practice from the private sector to the public sector, not only in accounting but in the overall business, organisation and management. Pina, Torres and Yetano (2009) emphasised that most reforms in the public sector aim to introduce market mechanisms as tools to improve decision making, management, and control in the public sector.

In private sector accounting the accrual basis has been applied for many years. Since the 1990s, accrual basis has been applied in public sector accounting in a given extent. Strong support for processes of reform in the public sector is provided by international institutions like OECD, World Bank, International Monetary Fund, and others. Although there are countries that finished reform processes in the public sector and implemented the accrual basis in public sector accounting, there are much more countries that are still in the public sector reform process. However, it should be pointed out that the full application of the accrual basis in public sector

accounting is really rare today. Many countries have implemented certain reforms in public sector accounting at the local and/or central level of the state. It is important to point out that the reform process of public sector accounting is conducting gradually and in several phases; most countries initially adopt the accrual basis of accounting at a local level, followed by the introduction of the accrual basis at the central government level, while in the final phase of reform the accrual basis is introduced in the process of compiling the consolidated financial statements of the state and for budgeting (Hladika, 2013). The weakest results in the implementation of public sector reform have been achieved by transition countries and developing countries. On the other hand, in the public sector reform, to date, Australia, New Zealand and the United Kingdom have achieved far-reaching changes in public sector accounting and, consequently, in the overall public sector management (Lye, Perera and Rahman, 2005; Mack and Ryan, 2006). As main reasons for such differences in a level of achieved reform, Pina et al. (2009) stated that there are different styles of public management; systems in different states do not require the introduction of profound organisational changes and because of the different democratic demands of citizens for greater public management responsibility and transparency.

The purpose of implementation of public sector reform is to increase the accountability in spending public resources and improvement the transparency of financial reporting. The framework for public sector accounting reform is contained in the implementation of the accrual basis in the public sector accounting. However, the process of reform itself is not going fast and easy, and it is marked by numerous constraints that make it difficult to implement. In this context, two main objectives of this paper have been set. The first objective relates to the theoretical framework and the review of literature in the area of public sector accounting reform and previously identified constraints of the conducting of the reform and the implementation of the accrual basis in public sector accounting. The second objective is to explore, systematise, and explain the key constraints for successful implementation of public sector accounting reform and the application of the accrual basis in the public sector accounting in Croatia based on the primary research conducted through the questionnaire. Accordingly, this empirical research study was designed to answer the following research questions:

*RQ1: What is the attitude of public managers toward the need for public sector accounting reform in Croatia?*

*RQ2: Which are main factors that influence on the possibility of implementation of accrual basis in public sector accounting in Croatia?*

The paper is divided into six parts. After the introduction follows the second part of the paper in which the theoretical framework and a literature review are presented. The aim of literature review is to point out the need for implementation

of public sector accounting reform at the international level, to highlight the benefits of applying the accrual basis in public sector accounting, to identify the key constraints in implementing the public sector accounting reform and to point out the necessity of harmonisation of accounting standards for public sector entities. In the third part of the paper a description of the research methodology is given, while in the fourth part of the paper the results of the research are presented. Discussion and conclusions are presented in the fifth part of the paper. In the last part of the paper, research limitations are presented and recommendations for future research are given.

The paper gives a double scientific contribution to the accounting literature. On the one hand, scientific contribution is reflected in the supplementation of the literature on the public sector accounting reform and the implementation of the accrual basis in public sector accounting since it addresses the concrete constraints that occur in the reform processes. On the other hand, primary research was conducted (in 2012 and 2018) on a sample of budgetary users in Croatia where so far researches about the constraints of public sector accounting reform have not been conducted; the main focus of previous researches was on analysing the current state of reforms implemented in public sector accounting.

## **2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW**

### ***2.1. Public sector accounting reform in the international context***

Implementation of various public sector reform initiatives over the last few decades is known under the joint common name *New Public Management* (Hood, 1995). The concept *New Public Management* encompasses several separate reform processes (organisational, managerial, and accounting) between which are strong links that require parallel implementation and the success or failure of one process, to a greater or lesser extent, effects the success or failure of the other reform process. Reform processes have emerged as a result of the marked need for efficient and cost-effective spending of public resources; in order to realise abovementioned, it is necessary to implement new techniques and management methods as well as innovations in financial and accounting techniques. *New Public Management* emphasises the introduction of market-oriented tools and management techniques from private sector in the public sector and the application of management tools (techniques and skills) from private sector in the public sector, and the introduction of accrual basis in accounting, financial reporting, and budgeting in the

public sector (Hood, 1995; Guthrie et al., 1999). Connolly and Hyndman (2006) stated that *New Public Management* supports six key elements for public sector management, namely privatisation, market orientation, decentralisation, output orientation, quality systems, and intensity of implementation. All these changes in the public sector are focused on improved planning, control, transparency, efficiency, and public sector responsibility. However, it is necessary to point out that the reform of public sector accounting alone, without taking into account the traditions, cultural, economic and political characteristics of individual country, is not sufficient for a successful conduction of the reform and the implementation of an accounting information system based on accrual basis that will meet all information needs and be adequate support to the management system in each country.

Cash basis and accrual basis are presenting fundamental accounting bases that are used for recording business events in business books and financial statements. Accrual basis means recognition of transactions and business events at the time when they actually occurred, regardless of whether the cash flow was simultaneously incurred, and the effects of business events are presented in the financial statements of the periods to which they relate. Consequently, the financial statements contain information about all economic categories. On the other hand, the cash basis implies recognition of transactions and business events at the time the money is received or paid (when the cash flow follows). Therefore, the application of cash basis means that revenues will not be recognised until the money is received, and the expenses will not be recognised until the money is paid out. Under the conditions of application of cash basis, the financial statements contain a very concise scope of accounting information, i.e. only cash receipts, cash outflows and cash balances are recorded. Summarised presentation of accounting information is not enough to make quality business decisions, nor does it point to accountability and transparency in spending public resources, so many countries in the public sector reform processes have initiated the process of implementing the accrual basis in public sector accounting.

## ***2.2. Advantages and benefits from applying the accrual basis in public sector accounting***

Public sector accounting is considered as the fundamental principle of democratic control of public spending (Pallot, 1992). In order to make the use of public resources more efficiently as well as to improve the insight and control over their spending, it is necessary to ensure an accounting information system that will provide users with comprehensive information about the public sector. Compre-

hensive information includes information about all the resources that are under control of the entity, information on all entities' obligations, cash flows information, revenue information, information on business costs, as well as information on the costs of providing services, costs of certain activities and programs (IFAC, 2000). This information is useful for assessing whether the reporting entity operates economically, responsibly, and efficiently. Key advantages and benefits from applying the accrual basis in public sector accounting are derived from the widest and comprehensive scope of accounting information that provide a complete picture about the financial position and performance of the public sector.

Comprehensive information is the basis for making quality business decisions, so the accrual basis enables better and more quality planning and decision-making, and consequently more effective control (Likierman, 2000; Chan, 2003). Quality and efficient business decisions based on timely, reliable, comprehensive, clear, and relevant accounting information lead to a more efficient public sector management (Bergmann, 2012). Implementation of the accrual basis in public sector accounting leads to improvements in the quality of financial statements of public sector entities. The improved quality of financial statements due to the comprehensive presentation of the effects of business events in the financial statements leads to better transparency of public sector to the professional and general public and all other interested parties (Van der Hoek, 2005; Ball, 2012). Transparent reporting also leads to new forms of responsibility in the public sector, and transparency and accountability are emphasised as key elements of good governance (Kim, Halligan, Cho, Oh and Eikenberry, 2005). Responsible management and transparent reporting of public sector entities provides to citizens and other decision-makers information that are needed to assess whether government activities and programs achieve their goals (Rossi, Cohen, Caperchione and Brusca, 2016).

From the point of view of public managers, Likierman (2000) and Ball (2004), as advantages of the accrual basis in public sector accounting, highlighted easier planning and allocation of financial resources, easier decision-making on outsourcing of individual services, the ability to measure the costs of provided services, and better internal responsibility. Furthermore, by using the accrual basis in public sector accounting, focus is set on measuring of efficiency and achieved results (outputs) due to the use of public resources, i.e. focus is redirected from the input (resources) to output (results) (Bowrey, 2007). Comprehensive cost information enables better control and cost management, as well as precise costing of a particular service (Hoque and Moll, 2001). Hepworth (2003) emphasises that providing information on all costs enables assessment of cost efficiency in providing of certain services in the public sector and comparison with the costs of providing the same services in the private sector. Accrual basis is a good base for development of performance indicators in the public sector and the support for measure-

ment of performance of the public sector, as well as the support in determining the amount of state fees and charges (Christiaens, Reyniers and Rolle, 2010). Jackson and Lapsely (2003) concluded that emphasising the responsibility of public management has influenced the introduction of the concept of „value for money“ in the public sector, which is confirmed by techniques for measuring performance, more quality planning and cost management. Athukorala and Reid (2003) pointed out that at the level of an individual public sector entity, financial statements prepared based on the accrual basis allow more quality measurement of the entity's efficiency and effectiveness and reduce the possibility of fraud and corruption. At the aggregate level (state level), fiscal indicators calculated by using the information prepared on the base of accrual basis provide more accurate information on the sustainability of fiscal policy, and provide a stronger basis for state responsibility and more precise measurement of the effects of the government policy for aggregate economic requirements. Jovanović (2015) pointed out that accrual basis enables a better basis for assessing the sustainability of fiscal policy and provides a broader picture of the overall fiscal position of the state. Moretti and Youngberry (2018) highlighted that accrual basis in the public sector accounting contributes to the improvements in the transparency of public finances, accountability for fiscal policy and the use of public resources, and to better management of public funds.

In order to achieve that the application of accrual basis in public sector accounting certainly generates all its advantages and benefits, and to make them visible, it is necessary, in addition to the reform of public sector accounting, to simultaneously carry out a wider and comprehensive reform of public administration, and an organisational change. Also, it is necessary to redefine management philosophy and business culture in the public sector because of introducing of the managing with the focus on the efficiency, effectiveness, and responsibility (Lande and Rocher, 2011).

### ***2.3. Previous researches on constraints in the implementation of public sector accounting reform***

Given that the need for reform of public sector accounting has been emphasised over the last few decades, and regarding the fact that many countries conducted a reform or are in some stage of the reform, hereafter is presented a review of previous research on key constraints that some countries have faced in the process of implementation of public sector accounting reform.

Khan and Mayes (2009) emphasise the need for a robust accounting information system based on a cash basis as an important precondition for successful

implementation of the accrual basis in public sector accounting. Lande and Rocher (2011) state that prior to the introduction of a new accounting information system based on an accrual basis, it is necessary to provide a favourable cultural, material, and organisational environment, and the ability to overcome technical and conceptual difficulties. Khan and Mayes (2009) and Ball (2012) emphasise the importance of political support for the successful implementation of public sector reform and for successful implementation of the accrual basis in public sector accounting. In addition, Lande and Rocher (2011) pointed out that the reform of public sector accounting can start when involved strategic and political actors become active, and this implies redefining the organisational framework.

In the context of technical and conceptual problems related to the implementation of the accrual basis, Lande and Rocher (2011) highlight the issue of recognition of long-term intangible and tangible assets, recognition of state liabilities (e.g. pension liabilities) and tax revenues that are specific only for the public sector. Lapsley, Mussari and Paulsson (2009) actualise key problems in recognising and measuring the assets that is specific for public sector such as public monuments, inherited assets, infrastructure assets and natural resources.

In the final phase for deciding on the implementation of the reform, technical and human resources required for the successful implementation of the reform are assessed. In doing so, the required training of employees is assessed and evaluated. Human resources management in the public sector requires strengthening the accounting skills of existing and future public sector employees (Khan and Mayes, 2009; Harun, An and Kahar, 2013; Newberry, 2014). In order to maximise the benefits of the accrual basis, additional education, and training of human resources (public accountants, public managers, and others) should be provided. That will ensure the understanding of the information based on the accrual basis and improve the ability to manage and maintain more sophisticated accounting infrastructure.

Based on the experience of implementing the accrual basis in public sector accounting in OECD countries, Cohen, Kaimenaki and Zorgios (2007) noted some constraints to the modernisation of accounting systems. As the most important constraints, they cited lack of resources for employees training, limited technical qualification of experts, lack of motivation and incentives to change and implementation of accrual basis, the inadequacy of human and IT resources, and insufficient support from the accounting and auditing profession. As a constraint for the reform of public sector accounting in Indonesia, Harun (2007) identified the lack of relevant accounting standards for the public sector as well as the absence of an independent body for accounting standards for the public sector. However, according to Harun (2007), the most significant barrier lies outside the scope of accounting and concerns the wider public service resource management issues.



Effective implementation of the reform requires well-trained and experienced experts in most specialised areas, and current public sector employees are not trained to apply sophisticated accounting and other innovative and advanced solutions that are required for the application of the accrual basis. Also, Harun (2007) points out that there is still no awareness and understanding of financial responsibility in the public sector in the same sense as it exists in the private sector. Furthermore, Hepworth (2003) emphasises the need for adequate expertise, especially in supervisory bodies and external audit institutions, to ensure that the financial statements of public sector entities are true and fair, and that the principles of accrual accounting are applied appropriately so that it improves the quality of accounting information.

The introduction of accrual basis in public sector accounting also requires significant costs (Paulsson, 2006; Bunea-Bontaş and Petre, 2009). Jones and Puglisi (1997) point out potential problems in implementing the accrual basis in public sector accounting, and those are the complexity and costs of designing and implementing new accounting information systems, difficulties in applying economic definitions of assets, liabilities, revenues and expenditures, and, more importantly, management and political factors related to changing the approach for governance in the public sector and resistance to changes.

Significant constraints for the implementation of the accrual basis in public sector accounting at the level of central government in Thailand include lack of initiatives and incentives, inadequate public sector management culture, lack of accounting manuals for successful implementation of necessary changes, and misunderstanding of accounting information prepared on the base of accrual basis (Nakmahachalasint and Narktabtee, 2018).

Based on the abovementioned, it can be concluded that successful implementation of the public sector accounting reform with the aim of implementing the accrual basis requires adjustment and compliance with numerous external and internal factors, as well as financial, technical, and conceptual issues. Finally, as crucial constraints for the successful application of the accrual basis in public sector accounting are human resources, financial resources, IT support, and long duration and complexity of the process.

#### ***2.4. Harmonised accounting standards for public sector entities***

Accrual public sector accounting is governed by standards that can be national or international. So, reform processes in the public sector are related with application of certain set of accounting standards for financial reporting of public

sector entities. The purpose of harmonisation in financial reporting of public sector entities is to achieve higher transparency as a basis for better decision making; better quality of financial statements and comparability of financial information and financial statements of public sector entities in different countries (Broz Tominač et al., 2015; Brusca and Martínez, 2016); more efficiency and effectiveness regarding public expenditure (Heald and Hodges, 2015).

Harmonisation of public sector accounting at an international level is currently realised by applying International Public Sector Accounting Standards (IPSAS). IPSAS are public sector equivalent of International Financial Reporting Standards (IFRS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS presents a set of mainly accrual-based accounting standards that provide a uniform basis for preparation of annual financial statements of public sector entities. At this point, there is a set of 40 IPSAS based on accrual basis for accounting, plus one cash-based standard (IFAC/IPSASB, 2018). The implementation of the IPSASs has a potential to strengthen public sector management at a global level and increase the transparency and high-quality financial reporting. According to the International Public Sector Financial Accountability Index, 19 (51%) of governments included in the Index and which already implement accrual basis in public sector accounting use IPSAS as accrual reporting framework (IFAC/CIPFA, 2018). In these governments, IPSAS are used in one of three ways: five governments have adopted IPSAS directly (without altering any of their requirements), five governments apply IPSAS indirectly (through national endorsement process, adjusting for any of the specific jurisdictional features), and nine governments use IPSAS as a guidance for developing national standards (IFAC/CIPFA, 2018). Although many of OECD countries have implemented accrual basis in public sector accounting, they are using different standards for preparation of annual financial statements – national standards (57%), national standards based on IPSAS (28%), national standards based on IFRS (9%), IPSAS (3%), or other (3%) (OECD/IFAC, 2017). Roje, Vašiček and Hladika (2012) pointed out that the achieved level of public sector accounting reform in Croatia presents a good basis for adjustment of Croatian governmental accounting information system toward IPSAS implementation.

During the last decade, an initiative of European Commission for development of European Public Sector Accounting Standards (EPSAS) is present, in order to harmonise accrual-based public sector accounting across EU Member States. The main benefit of EPSAS implementation is seen in providing a firmer basis for understanding the financial position and financial performance of public sector entities at all levels (European Commission, 2013; European Commission, 2019). In order to prepare well for further steps of public sector accounting reform and EU harmonisation, a need to improve its existing accounting system, embark

on deeper accounting reform and implementation of full accrual basis in public sector accounting is present in Croatian public sector. This will require additional technical efforts for taking forward new challenges in implementation of accrual basis for accounting as well as additional financial resources, changes in regulatory framework and significant political support for all these changes and reforms.

### 3. RESEARCH METHODOLOGY AND DATA SOURCES

In order to investigate and determine the impact of identified constraints on the possibility of application of the public sector accounting reform and the implementation of the accrual basis in public sector accounting in Croatia, a primary research was conducted by using an online questionnaire as a research tool. According to Baruch and Holtom (2008), the questionnaire is an appropriate research tool for assessing individual perceptions and attitudes as well as organisational policies and practices.

Two identical researches were conducted. The first research was conducted in 2012, and the second research was conducted in 2018. In both researches, the population consisted of all budgetary users of the state budget and budgetary users of the budget of local and regional self-government units. In the Register of budgetary and extra-budgetary users for 2012 752 budgetary users of the state budget and 2875 budgetary users of the budget of local and regional self-government units were listed, and for 2018 there were 640 budgetary users of the state budget and 3049 budgetary users of the budget of local and regional self-government units listed (Official Gazette "Narodne novine", 51/2008). Considering that because of the large number of budgetary users it was impossible to include the entire population, the units in a sample were chosen on such a way that each member of the population had the same probability of choice in the sample, where the probability was greater than zero. In both researches, the research sample consists of 1300 budgetary users and is considered as a representative sample (35.84% of the population was selected in the sample in 2012; 35.24% of the population was selected in the sample in 2018). The sample includes budgetary users of the state budget and budgetary users of the budget of local and regional self-government unit which perform different functions of the state, meaning that the representative coverage of all state functions in the sample is achieved. Respondents were public managers.

The content of the questionnaire was based on the knowledge obtained through a comprehensive literature review in the area of public sector accounting reform in different countries. The variables that were investigated in the paper were measured by the Likert scale in which the statements on constraints for

the conduction of public sector accounting reform and the implementation of the accrual basis in the public sector accounting in Croatia were evaluated from 1 (minimum significance) to 5 (highest significance). The researches were conducted in the period from March to May 2012 and from January to April 2018. In 2012 a total of 130 fully completed questionnaires were collected (return rate 7.65%). In 2018 a total of 242 fully completed questionnaires were collected (return rate 18.62%).

#### 4. RESEARCH RESULTS

Main characteristics of the observed sample of budgetary users were analysed by the use of descriptive statistics methods. The structure of budgetary users that have fully completed a questionnaire according to the function which the budgetary user performs is shown in Table 1.

*Table 1.*

#### BUDGETARY USERS ACCORDING TO THE CLASSIFICATION OF THE FUNCTIONS OF THE GOVERNMENT (COFOG)

Function	2012		2018	
	Number of budgetary users	Proportion	Number of budgetary users	Proportion
General public services	39	30.00%	40	16.52%
Defence	0	0.00%	2	0.83%
Public order and safety	5	3.85%	5	2.07%
Economic affairs	0	0.00%	5	2.07%
Environmental protection	2	1.54%	6	2.48%
Housing and community amenities	0	0.00%	2	0.83%
Health	4	3.08%	21	8.68%
Recreation, culture, and religion	20	15.38%	31	12.81%
Education	54	41.54%	114	47.10%
Social protection	6	4.61%	16	6.61%
<b>Total</b>	<b>130</b>	<b>100.00%</b>	<b>242</b>	<b>100.00%</b>

Source: Own research.

Results about the level of significance of certain constraints on the possibility of implementation of accrual basis in public sector accounting in Croatia are presented in Table 2. Public sector managers evaluated identified constraints (human resources, financial resources, IT support, and long duration and complexity of the process) by using the Likert scale from 1 (minimum significance) to 5 (highest significance).

*Table 2.*

**SIGNIFICANCE OF CERTAIN CONSTRAINTS REGARDING  
 THE POSSIBILITY OF IMPLEMENTATION OF ACCRUAL BASIS  
 IN PUBLIC SECTOR ACCOUNTING IN CROATIA**

Constraint	2012			2018		
	Mode	Average	Standard deviation	Mode	Average	Standard deviation
Human resources	4	3.84	0.921776564	4	3.72	1.098938526
Financial resources	5	4.47	0.818283906	5	4.42	0.811859981
IT support	3	3.42	0.962752960	3	3.54	1.072674642
Long duration and complexity of the process	3	3.53	0.981917611	4	3.57	1.013277311

Source: Own research.

Research results showed that public sector managers rated financial resources as the most significant constraint for the implementation of the accrual basis in public sector accounting in Croatia (average value of 4.47 in 2012; average value of 4.42 in 2018), while the lowest significance is given to IT support (average value 3.42 in 2012; average value 3.54 in 2018).

Within the framework of a particular constraint, different factors that have an impact on the possibility of implementation of the accrual basis in public sector accounting have been identified. Table 3 shows the significance of each factor within the constraint “human resources”.

Table 3.

## SIGNIFICANCE OF THE CONSTRAINT "HUMAN RESOURCES"

Factor	2012			2018		
	Mode	Average	Standard deviation	Mode	Average	Standard deviation
Employees resistance to changes	3	3.02	0.981742635	3	3.05	1.103380243
Insufficient awareness of employees about the necessary changes in public sector accounting	4	3.86	1.035942671	4	3.69	0.906711333
Insufficient willingness and interest of users to accept new business processes, roles, and responsibilities which the reform brings	4	3.38	0.998542687	3	3.30	0.974741883
Inadequate qualifications of employees	3	3.28	0.971852345	3	3.10	0.951995841
Lack of qualified executive staff (key people who understand the relationship between different reform elements)	3	3.52	0.984159623	4	3.58	0.952931941
Lack of competent team leaders in implementing reforms	3	3.52	0.971482369	3	3.56	0.941637319
Inadequate cooperation between individual functions and levels of management	3	3.36	1.005981363	3	3.55	0.993756443
Unrealistic expectations of employees	2	2.78	1.036845287	2	2.82	1.096959207
Inadequate salaries	4	3.66	1.026984265	4	3.63	1.047678575

Source: calculated by the author.

Evaluated public sector managers identified factors of constraint “human resources” with an average value 3, where the most significant factor was the insufficient awareness of employees about the necessary changes in public sector accounting (average value 3.86 in 2012; average value 3.69 in 2018). As the lowest significant factor public sector managers evaluated the factor related to unrealistic expectations of employees (average value 2.78 in 2012; average value 2.82 in 2018).

Table 4 shows the significance of each factor within the constraint “financial resources” on the possibility of implementation of the accrual basis in public sector accounting in Croatia.

*Table 4.*

**SIGNIFICANCE OF THE CONSTRAINT “FINANCIAL RESOURCES”**

Factor	2012			2018		
	Mode	Average	Standard deviation	Mode	Average	Standard deviation
Financing of experts involved in the implementation of reforms (consultancy services)	4	3.45	1.015493571	3	3.45	0.906191150
Financing of additional education and training of employees	4	3.59	0.928567135	4	3.70	0.871349740
Investing in new software and implementing a new accounting information system	3	3.63	0.936851460	4	3.85	0.889413598

Source: calculated by the author.

Evaluated public sector managers identified factors of constraint “financial resources” with high values. As the most significant factor, public sector managers highlighted significant financial resources for investments in new software and implementation of new accounting information system (average value 3.63 in 2012; average value 3.85 in 2018). Significant investments are also expected for financing an additional education and employee training; therefore, public sector managers

rated this factor with a high grade (average value 3.59 in 2012; average value 3.70 in 2018). The lowest significance was given to financing of external experts (average value 3.45 in 2012 and 2018).

Table 5 shows the significance of each factor within the constraint “IT support” on the possibility of implementation of the accrual basis in public sector accounting in Croatia.

*Table 5.*

#### SIGNIFICANCE OF CONSTRAINT “IT SUPPORT”

Factor	2012			2018		
	Mode	Average	Standard deviation	Mode	Average	Standard deviation
Limitations of the existing accounting information system for transition to the application of the accrual basis (necessary upgrade of the existing accounting information system)	4	3.48	1.015863271	4	3.64	0.955438680
Inadequate technical support	3	3.15	0.982512473	3	3.15	0.954010915
Necessary procurement of new software and training of employees for work in the new accounting information system	3	3.59	1.001859226	4	3.65	1.032346108

Source: calculated by the author.

Within the constraint “IT support” public sector managers evaluated the necessity for procurement of new software and training of employees for work in the new accounting information system as the most significant factor (average value 3.59 in 2012; average value 3.65 in 2018). Very similar significance was given to the limitations of the existing accounting information system for transition to the



application of the accrual basis due to the incomplete information base necessary for the application of the accrual basis (average value 3.48 in 2012; average value 3.64 in 2018). The lowest significance was given to inadequate technical support (average value 3.15 in 2012 and 2018).

Table 6 shows the significance of each factor within the constraint “long duration and complexity of the process” on the possibility of implementation of the accrual basis in public sector accounting in Croatia.

*Table 6.*

**SIGNIFICANCE OF CONSTRAINT “LONG DURATION AND COMPLEXITY OF THE PROCESS”**

Factor	2012			2018		
	Mode	Average	Standard deviation	Mode	Average	Standard deviation
Problems in the transitional period (resistance to accepting changes, inadequate accounting and technical solutions and others)	4	3.72	0.902574185	4	3.65	0.847609840
Project plan and the strategy for the implementation of the reform are not appropriately prepared	5	4.17	0.847256398	5	4.09	0.918183499
A long period to the first results of the reform and unrealistic expectations in short-term	4	3.92	0.942658513	4	3.90	0.919182017
Difficult to ensure long-term political support	4	3.77	0.970548236	4	3.94	0.958019401
Long-term employee training for work in the new IT system	3	3.30	0.923458621	3	3.18	0.946713029

Source: calculated by the author.

Public sector managers marked the factor which relates to the project plan and the strategy for the implementation of the reform that are not appropriately prepared with the highest significance (average value 4.17 in 2012; average value 4.09 in 2018). The lowest significance was given to the factor which related to long duration of employee training for work in the new IT system (average value 3.30 in 2012; average value 3.18 in 2018).

Of the 130 public managers who were included in the research sample in 2012, 128 expressed the willingness and the need to implement the public sector accounting reform and the implementation of the accrual basis in public sector accounting in Croatia. It is important to note that 67 (51.50%) public sector managers pointed out that they considered the need for the reform to be implemented in the short term (1-3 years), 60 (46.20%) public sector managers believe that reform should be implemented in the middle term (4-6 years), while 3 (2.30%) public sector managers believe that the reform should be implemented in the long term (over 6 years). On the other hand, of the 242 public managers who were included in the research sample in 2018, 237 expressed the willingness and the need to implement the public sector accounting reform and the implementation of the accrual basis in public sector accounting in Croatia. It is important to note that 132 (54.55%) public sector managers pointed out that they considered the need for the reform to be implemented in the short term (1-3 years), 100 (41.32%) public sector managers believe that reform should be implemented in the middle term (4-6 years), while 10 (4.13%) public sector managers believe that the reform should be implemented in the long term (over 6 years).

Finally, it can be concluded that there are no differences in the results of the research conducted in 2012 and 2018.

In order to determine the correlation between the public sector accounting reform and the individual constraint, the Pearson correlation coefficient was used. Table 7 shows the results obtained.

Table 7.

STATISTICAL CORRELATION BETWEEN VARIABLES

Variables	2012		2018	
	Pearson correlation coefficient	Intensity	Pearson correlation coefficient	Intensity
Human resources and public sector accounting reform	-0.02294	weak negative correlation	0.18116	weak positive correlation
Financial resources and public sector accounting reform	-0.20331	weak negative correlation	0.28897	weak positive correlation
IT support and public sector accounting reform	0.21966	weak positive correlation	0.01237	weak positive correlation
Long duration and complexity of the process and public sector accounting reform	0.05743	weak positive correlation	0.06453	weak positive correlation

Source: calculated by the author.

Pearson correlation coefficient was used to investigate the strength and direction of correlation between variables, i.e. to determine the correlation between public sector accounting reform and individual constraints (human resources, financial resources, IT support, and long duration and complexity of the process) for implementing public accounting reform sector. Based on the obtained results it can be concluded that, according to Dumičić et al. (2011), there is a weak positive correlation and/or weak negative correlation between observed variables.

**5. DISCUSSION AND CONCLUDING CONSIDERATIONS**

It is important to point out that the reform of public sector accounting is necessary due to many advantages which it brings at a micro and macro level. Identified advantages are based on the experience of the countries that have implemented the reform of public sector accounting. The expanded scope of accounting information has contributed to multiple positive effects on management of assets and liabilities in the public sector; making decisions about the use of scarce pub-

lic resources; a comprehensive measure for assessment of fiscal sustainability, as well as for transparency and financial reporting of public sector entities. A more reliable and transparent financial reporting system, strengthening government responsibility for managing and spending public resources, facilitating control and better quality of business decisions contributes to strengthening public confidence in the work of government bodies and institutions. Related to this and in accordance with research results, public managers in Croatia are aware of these benefits of reform of public sector accounting and they indicate their positive attitude for implementation of accrual basis in public sector accounting.

However, conduction of the reform and implementation of the accrual basis in public sector accounting is a demanding, complex, and lengthy process. Thus, the reform of public sector accounting requires, above all, a shift in the philosophy and culture of public sector management by bringing it closer to the practice of the private sector, but also the application of the accrual basis in public sector accounting requires changes in the practice, knowledge and skills of accountants and managers in the public sector and all other users of financial statements of public sector entities. Research results indicate the need for significant efforts of practitioners and regulators in the area of upgrading the current accounting framework, financing of public service employees (accountants, managers, auditors and others), development of new accounting policies related to implementation of accrual basis, evaluation of assets and liabilities in the public sector, changes in running business processes, and investment in information systems.

Through the research and analysis of secondary sources of literature, constraints for conducting the reform and implementation of the accrual basis in public sector accounting are identified and summarised in four groups: human resources, financial resources, IT support and long duration and complexity of the process. Furthermore, within a particular constraint were identified different factors that have an impact on the possibility of implementation of the accrual basis in public sector accounting. Research results showed that it is important to point out that well-educated, qualified, and motivated public sector employees are crucial for the success of implementation of the public sector accounting reform. Furthermore, significant financial resources are needed to finance the procurement of IT equipment, paying for consulting services of various external specialists in specific areas, and education of existing and future employees. Then, the modernisation of the accounting information system requires the upgrade of the existing system, the acquisition of new computers as well as new software. Finally, the process of implementation of the accrual basis is time-consuming and very complex, and the precondition for successful conduction of the reform and implementation of the accrual basis in public sector accounting is the existence of a robust accounting information system based on a cash basis. Also, a well-prepared project plan and strategy for implementing the reform is required. The results of the pri-

mary research conducted in Croatia showed that public managers rated financial resources as the most significant constraint for the implementation of the accrual basis in public sector accounting in Croatia. Consequently, it is concluded that the obstacles for the conduction of public sector accounting reform lie far beyond the accounting itself and concern wider and more complex issues of human and financial resources management in the state.

Regardless of numerous and significant constraints, however, any government should mark public sector accounting reform as its long-term goal. In that context, international experiences suggest that a strong and sustainable political support for the implementation of public sector accounting reform is needed because of significant financial resources that the reform requires; and all governments should be aware of this before launching reform and modernisation of the public sector accounting and financial management system. Public sector managers in Croatia are aware of benefits of accrual public sector accounting and the necessity of its implementation. So, through the primary research the need for public sector accounting reform in Croatia and the positive attitude of public sector managers related to this reform are identified.

In the literature, the accrual-based public sector accounting usually appears as a crucial element of modern public management. Previous literature systematises benefits that implementation of accrual based public sector accounting contributes to public management, for transparency on spending of scarce public resources, better decision making in the public sector and comprehensive accounting information about all economic categories. This study contributes to the academic literature in the area of analysis of constraints that are present in processes of reform in the public sector of developing countries.

## **6. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS**

Since the research of the constraints for the implementation of public sector accounting reform and the implementation of the accrual basis in public sector accounting are still insufficiently investigated areas, it is necessary to conduct further research at a national and international level. In order to make the research more relevant and reliable and the research sample more representative, it is necessary to increase the number of respondents and use an in-depth interview method rather than a questionnaire. Future research should include other public sector employees (primarily accountants) in order to examine their opinion and attitudes about the need for implementation of public sector accounting reform, and about the crucial constraints for implementing the reform.

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#### ANALIZA STAVOVA JAVNIH MENADŽERA O OGRANIČENJIMA ZA PROVEDBU REFORME RAČUNOVODSTVA JAVNOG SEKTORA U REPUBLICI HRVATSKOJ

##### Sažetak

Primijenjena računovodstvena osnova utječe na obuhvat računovodstvenih informacija koje su prezentirane u financijskim izvještajima i koje ukazuju na financijski položaj i uspješnost poslovanja subjekta u određenom razdoblju. Obračunska osnova već se dugi niz godina primjenjuje u privatnom sektoru, međutim u javnom sektoru puna primjena obračunske osnove još uvijek je rijetka i nedovoljno zastupljena. U radu se istražuju i analiziraju ograničenja za provedbu reforme računovodstva javnog sektora i implementaciju obračunske osnove u računovodstvo javnog sektora. Provedeno je istraživanje putem anketnog upitnika na uzorku od 130 proračunskih korisnika u 2012. godini, odnosno 242 proračunska korisnika u 2018. godini u Republici Hrvatskoj. Ispitanici su bili javni menadžeri. Rezultati istraživanja pokazali su da se najznačajnija ograničenja za provedbu reforme računovodstva javnog sektora mogu sažeti u četiri skupine, i to: ljudski resursi, financijski resursi, informatička podrška te dugotrajnost i složenost procesa, pri čemu su javni menadžeri kao najznačajnije ograničenje ocijenili financijske resurse. Znanstveni doprinos rada ogleda se u nadopunjavanju literature o reformi računovodstva javnog sektora budući da sustavno obrađuje ograničenja koja se javljaju u reformskim procesima. Dodatno, znanstveni doprinos sadržan je u prezentiranju rezultata primarnog istraživanja o ograničenjima za provedbu reforme računovodstva javnog sektora i implementaciji obračunske osnove u računovodstvo javnog sektora u Republici Hrvatskoj.

Ključne riječi: obračunska osnova, računovodstvo javnog sektora, ograničenja za implementaciju obračunske osnove, reforma računovodstva javnog sektora, Hrvatska