

PUBLIC SECTOR ACCRUAL ACCOUNTING APPLICATION: CAN CROATIA LEARN FROM NEW ZEALAND EXPERIENCE?

CIGAR 2016 Workshop, 7 July - 9 July, Wellington, NZ



Gorana Roje, Nives Botica Redmayne, Vesna Vašiček

Public Sector Accrual Accounting application: Can Croatia learn from New Zealand experience?

□ Gorana Roje,

State Asset Management Office, Croatia, roje.gorana@gmail.com, gorana.roje@duudi.hr

□ Nives Botica Redmayne

School of Accountancy, Massey University, NZ, n.redmayne@massey.ac.nz

□ Vesna Vašiček

Faculty of Economics and Business Zagreb, University of Zagreb, Croatia, vvasicek@efzg.hr

This work has been supported by Croatian Science Foundation's funding of the project 8509 Accounting and financial reporting reform as a means for strengthening the development of efficient public sector financial management in Croatia. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of Croatian Science Foundation.

Presentation outline



- The goal and the hypothesis
- Background to public sector reform processes and public finances in Croatia and New Zealand
- The development of PSA in Croatia and NZ through a 25 - year period (1990 -2015)
- The basic characteristics of today's PSA in Croatia and NZ
- Similarities / differences between the accounting systems in Croatia and NZ
- Conclusions

The Goal and the Hypothesis

The goal is to:

- compare the path of development and identify key influences on solutions in Croatia and NZ
- explore whether and to what extent it is possible and useful to apply PSA experiences of other countries (NZ) or international authorities in the development of national PSA systems in Europe (Croatia)

The research hypothesis: the development of PSA should be viewed in close connection with the degree of development of the country (state and political structure, territorial organization, the structure of the public sector, economic development and development of the society)

In order to confirm the hypothesis, authors:

- analyse the fundamental characteristics of PSA in Croatia and NZ - emphasis on legal framework, public finance, and choice of accounting basis
- make comparisons between the accounting systems of Croatia and NZ and noticed differences rather than similarities in developmental stages.

Why Croatia and New Zealand?

International perspective:

- compulsory and recommended EU regulations fostering accruals adoption;
- EU integration processes;
- international trend of less developed countries and countries in transition to implement the experiences and best practice of developed countries;
- the IMF and other international institutions: a report system which would enable an overview of the public finances and loan-returning capabilities

National perspective:

- The Budget Act (CRO) normatively enables and fosters the IPSAS implementation;
- Budget spending increase and the need for fiscal consolidation
- The accrual accounting adopted by the New Zealand Government over 25 years ago;
- New Zealand embarked on public sector management reforms in early 1980s enhancing public accountability to improve public sector inefficiency and ineffectiveness – leaders in that sense.

Territorial organization

CROATIA

- Three levels: central, regional and local government
- The executive branch includes 34 central state administration bodies - CSAB (state offices and Ministries)
- 20 units of regional government (RG) - counties + Zagreb (county and city); 556 units of local government -LG (128 cities and 428 municipalities)
- Territorial and governmental independence of RG and LG units is followed by financial independence.
- Parliament (law-making authority); the Government (decrees, provisions); CSAB (recommendations, ED, resolutions).
- CRO - population 4.3M and area 88 073 km²

NEW ZEALAND

- The Government of New Zealand has three branches: the legislative, executive and judicial branches.
- The executive branch includes around 40 departments and Ministries.
- In New Zealand governmental system, Parliament is the supreme law-making authority and provides authority for all governmental activity.
- NZ – population 4.5M and area 268,021 km²

Background to public sector reform processes and public finances (1)

CROATIA

- The scope of the general government: The Budget Act + additional set of regulations – decrees, provisions and guidance documents
- The budget system consists of the central budget and budget of local and regional governments and extra –budgetary users.
- The establishment of the Registry of the budget users and the extra-budgetary users – to define the scope of the public sector for national statistics purposes
- Activities in accordance with criteria and requirements of the EU: budgetary control system (state audit + internal audit + internal controls)

NEW ZEALAND

- The authority to scrutinise and control the financial authority is given to the Government by section 22 of the Constitution Act 1986
- The Public Finance Act (2004) is the core legislative framework authority for, and scrutiny of, government activity.
- Public Finance Act (2004) represents the foundation of accountability systems for the resources provided by taxpayers to the New Zealand Government.
- Other acts: The State Sector Act 1988, The Public Audit Act 2001, The Crown Entities Act 2004, The State-Owned Enterprises Act 1986 (SOE Act)

Background to public sector reform processes and public finances (2)

CROATIA

- Public sector - new managerial tools and wider reform concepts (i.e. new public management concept) have a limited effect, as processes are perceived more in a political context.
- Croatian system of public financing is highly centralized.
- The process of fiscal decentralization started in 2001
- However, data from 2014 show that the central state incurred about 85, 5% of total budget expenditures while regional and local units amount to 15, 5% of total budget expenditures.

NEW ZEALAND

- New Zealand's public sector management system is focussed on promoting public sector performance.
- The emphasis on clear objectives and clear lines of responsibility, greater freedom to manage, and an expectation of accountability.

Key public sector accounting (PSA) development phases (1)

CROATIA

- **First Phase (1991-1993)**

- the continuity in the application of legislation and accounting models inherited from the former state;

- **Second Phase (1994-1994)**

- the introduction and application of a completely new system which in addition included all non-profit organizations- state and private.
- conceptually based on fund accounting and modified accrual accounting, but its legislative operationalization was non-systematic and inconsistent

- **Third phase (1995-2001)**

- the modernization of the budget system and accounting systems
- the State Treasury was established
- synchronization of classification standards to the GFS standards
- mandatory cash basis supplemented with the information on: obligations and receiveables, non-monetary resources and debts

- **Fourth phase (2002- today)**

NEW ZEALAND

- Four phases of change:

- cash basis until late 1980,
- accrual-based accounting coupled with sector neutral standards from early 1990s to 2005-2007,
- modified IFRS from 2007 to 2012,
- IPSAS based standards with multi-tiers from 2014.

Key public sector accounting (PSA) development phases (2)

RH (4th phase, as of 2002 to today)

- Accounting is standardised and unified for all budget users and closely connected to other budget processes.
- A double-book keeping principle and accepted analytical framework which determines the content of accounts and rules of recording.
- Modified accrual basis.
- IPSASs are not applied directly, but some provisions are applied indirectly through national legislation.
- Revenues, expenditures, inflows and outflows, are presented according to budget classifications, mandatory in all stages of the budget process.

Key public sector accounting (PSA) development phases (3)

RH (4th phase, as of 2002 to today)

- Positive developments and progress made:
- uniformity and unification of a system used by all budgetary entities - enables a state-level data consolidation
- complete introduction of state treasury,
- introduction of modified accrual accounting
- the introduction of standardized classifications at all levels of the budgeting process (planning, execution, accounting and financial reporting)
- harmonization with GFS and other international macroeconomic statistical systems (ESA and SNA): no need that statistics data are collected through preparing additional statistics reports (accounting data that results out of the accounting processes, serve as a basis for preparing the financial reports that further serve as a an information basis for statistical data processing/analysis)

The basic characteristics of the contemporary PSA – financial reporting (1)

CROATIA

- Financial reports are drafted on the following forms:
 - - Balance - Form BIL,
 - - Report on revenues, expenditures, receipts and expenses - Form: PR-RAS,
 - - Report on expenditures according to functional classification - Form: RAS-funkcijski
 - - Report on changes in the value and volume of assets and liabilities - Form: P-VRIO
 - - Report on liabilities – Form: OBVEZE
- Semi –annual and annual budget execution reports
- All reports are subject to auditing by State Audit Office and public disclosure.
- Consolidated financial statement of general government is achieved by a three level consolidation basis.

The basic characteristics of the contemporary PSA – financial reporting (2)

NEW ZEALAND

- Monitoring - the departments must ensure that all expenses and capital expenditure are in accordance with the authority provided.
- Regular exception reporting required to highlight potential breaches of appropriations.
- Departments report monthly to Treasury on the use of appropriations.
- Treasury responsible for preparing Budget documents, monitoring the use of funds, preparing the monthly monitoring report on appropriations for the Auditor-General
- **At least once every four years, a statement on the long-term fiscal position, covering a period of at least 40 years. (This requirement was introduced in 2004)**
- **At the end of the financial year, departments' annual reports contain a Statement of Appropriations reporting actual expenses and capital expenditure incurred against each appropriation and actual expenses incurred costs against each class of outputs.**
- **Compared to other countries, the New Zealand system provides a large number of detailed individual appropriations.**
- Public Finance Act provides reasonable flexibility for the New Zealand Government.

The basic characteristics of the contemporary PSA – financial reporting (3)

NEW ZEALAND

- **Whole-of- Government Financial Statements**
- Financial Statements of the Government of New Zealand as part of the Government reporting entity under the Public Finance Act 1989 - This includes the State Services, tertiary education institutions, State-Owned Enterprises and Mixed Ownership Model companies, a small number of agencies that operate as instruments of the Legislative Branch of Government.
- Concept of the Government Reporting Entity is applied -the Government reporting entity concept is similar to the parent entity in a private sector context.
- The financial statements of the Government report on the whole-of-government - group accounts.
- The Public Finance Act (section 27(3)) requires that the annual consolidated financial statements for the Government reporting entity must include the Government reporting entity's interests in all Crown entities named or described in the Crown Entities Act 2004
- **Local authorities are not included in the financial statements of the Government because they are not controlled by the Government.**

Similarities / differences between the accounting systems

NZ	CROATIA
<ul style="list-style-type: none">•long - term reform processes•strategic goals and development paths that would define the role of the individual segments in the overall general reforms are more constant•the public sector accounting reform was triggered and had the support of the political structure at the time•reform has been placed in the wider context of the development of new public management as a governance reform in the NZ public sector•accounting system is developed based on accounting standards and rules of accounting and finance profession•full accrual accounting adoption•public sector has experienced somewhat of a turnaround. Using full accrual accounting and IFRS showed that the specifics of public sector were not sufficiently catered for - the adoption of IPSAS	<ul style="list-style-type: none">•long- term reform processes•the existence of many regulations and frequent amendments to the normative regulation of the matter (planned economy changed to the market-driven one; public finances centralization....)•excessively complicated administrative procedures and the unnecessary system of bureaucracy•lack of political will and resistance to change from within the administration structure•political incentives only on ad hoc basis -political option/structure changes•no long-term sustainability of public administration•a need for other reform processes to enhance the development of the accounting system – fostered by EU membership processes•accounting system is based on a law fostering standardization and unification•no tradition of developing accounting standards•modified accrual accounting application

Conclusions

- the decisive influence on the shaping of governmental accounting at the country level comes from two sources: **a national source and the international source**
- it is important to observe the effects of the structure of the state, tradition and historical heritage, the effects of public policy and wider reform processes that directly or indirectly make impact on public sector accounting (budgetary processes, public sector management processes, political incentives etc.)
- whether it is possible to apply any of the developed countries experiences (NZ) and wider international trends as an example of good practice in transitioning countries (Croatia), depends greatly on variety of factors that have influenced the developments made so far (i.e. national specifics and limitations affecting the dynamics of the national accounting development, international recommendations and mandatory EU directives)
- simple comparison of the two selected countries is not yet possible
- harmonization and unification of methodological and legislative frameworks and national accounting practices and IPSAS adoption shall further lead to reducing national specifics (i.e. deregulating of the system) in Croatia

Thank you for your attention.
Comments, suggestions are welcome.



This work has been supported by Croatian Science Foundation's funding of the project 8509 Accounting and financial reporting reform as a means for strengthening the development of efficient public sector financial management in Croatia. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of Croatian Science Foundation.