

# Challenges and Opportunities of European Public Sector Accounting Standards (EPSAS) Implementation and Transparency of the Public Sector in the European Union: Croatian Accountants' Perceptions

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# Challenges and Opportunities of European Public Sector Accounting Standards (EPSAS) Implementation and Transparency of the Public Sector in the European Union: Croatian Accountants' Perceptions

Silvia Golem, Andrijana Rogošić, and Goran Dedić

*European Public Sector Accounting Standards (EPSAS) are being introduced by the European Commission to facilitate the harmonization of public sector accounting standards across the European Union countries. The main aim of this research is to explore the existing level of awareness, attitude, and expectations of public sector accountants at the subnational levels of government towards implementation of EPSAS in Croatia. Additionally, this paper explores the relationship between the existing level of public sector transparency, as perceived by public sector accountants, and the expected outcomes of EPSAS implementation. The findings suggest that public sector accountants are quite skeptical regarding the outcomes of EPSAS implementation. Among the positive effects, public sector accountants point to an expected increase of accountability and budget control, and greater transparency of public expenditures. Finally, the findings indicate that higher existing levels of budgetary transparency, as perceived by public sector accountants, lead to anticipation of more favorable effects of EPSAS.*

## 1. Introduction

The concept of public sector includes different levels of government (local, regional/state, and central) that regulate, redistribute, and allocate economic resources and, as a result, significantly influence citizens' wellbeing. There is no single measure of the size of public sector that would account for all aspects of government activities, particularly regulatory or non-budget activities. The most widely used budgetary measure of the relative size of public sector is the proportion of government expenditures or revenues in GDP. Although this indicator reveals that there are marked differences among nations, government expenditures/revenues, on average, typically account for nearly 50 percent of GDP in developed economies. Available data suggest that modern societies allocate and redistribute a significant portion of economic resources through the public sector and that, generally, this portion has been increasing throughout the 20th century. This fact has stirred the interest of researchers, policy makers,

and also the general public, in the efficiency and transparency of the public sector.

To harmonize public sector accounting practices and to improve the transparency of public accounts and the quality of the financial information of public sector entities across the European Union member states, in 2013 the European Commission (EC) launched the European Public Sector Accounting Standards (EPSAS) project. The main idea is that a strict standardization of public sector accounting will bring about a common accounting standard platform for the European countries and enhance transparency, comparability and cost efficiency of the public sector in the EU. Consequently, in the past 10 years, accounting and budgeting systems at all government levels and public sector entities in Europe have undergone substantial reforms,<sup>1</sup> motivated by (preparation for) implementation of I/EPSAS. In the following section, we introduce the EPSAS concept, while pointing to some drawbacks of IPSAS whose usefulness in relation to enhancing public sector accounting in the EU seem to be quite controversial. This is followed by section 3, which describes current Croatian public sector accounting practices. With reference to its historical development, we point to the importance of the historical legacy in creating a country's accounting culture. Employing a structured online questionnaire, in section 4 we empirically explore the existing level of awareness, attitude, and expectations of public sector accountants employed at the local and regional governments towards implementation of EPSAS in Croatia. In the same section, we discuss our main findings; namely, that public sector accountants are not particularly optimistic regarding the expected outcomes of EPSAS implementation. In addition, our findings suggest that present transparency levels, as perceived by public sector accountants, determine the expected EPSAS benefits, suggesting that countries with more transparent public sectors are expected to have a shorter and more successful EPSAS adoption journey. In section 5, we provide an overview of the experiences and efforts undertaken by some European countries to implement EPSAS, pointing to certain (dis) similarities among different groups of the European countries, which can be attributed to their common historical and cultural backgrounds. The last section provides both theoretical and practical implications of this study with an overview of limitations and recommendations for future research.

## 2. EPSAS: A Path to Harmonized Public Sector Accounting in the EU

Since the public sector has been criticized for being insufficiently effective and efficient, a more business-like management and accounting approach has been

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<sup>1</sup> Isabel Brusca et al., "IPSAS, EPSAS and Other Challenges in European Public Sector Accounting and Auditing," in *The Palgrave Handbook of Public Administration and Management in Europe*, ed. Edoardo Ongaro and Sandra Van Thiel (London: Palgrave Macmillan, 2018), 165–86, [https://doi.org/10.1057/978-1-137-55269-3\\_8](https://doi.org/10.1057/978-1-137-55269-3_8).

introduced through the ideas of New Public Management (NPM). Accrual basis accounting has been applied in the private sector worldwide for many decades, while governments, even of the most developed countries, have hesitated to make it mandatory for public sector entities until recently. In comparison to cash basis accounting, accrual basis accounting enables better valuation and follow up of assets as well as costs.

Introduction of the accrual basis accounting system in the public sector across the countries of the EU was promoted with the argument that it provides information that is more appropriate for decision makers, which ultimately leads to a more efficient and effective public sector.<sup>2</sup> It is expected that, with its implementation, governments would disclose comparable, reliable, and timely information.<sup>3</sup> Giovanna Dabbico argues that accrual accounting is expected to provide more accurate information regarding accounts payable and receivable; off-balance sheet exposures; employee liabilities; and other outstanding liabilities.<sup>4</sup> As a consequence, “creative” accounting practices in these areas should be reduced. Despite this inclination towards accrual basis accounting, public sector accounting practices across the EU are quite heterogeneous. Although many EU countries have abolished cash basis accounting and introduced accrual or, at least, modified accrual accounting, public sector accounting systems still differ significantly between member countries, and sometimes even within a single country—across different levels of government. Local and regional governments are more likely than central governments to have an accrual accounting model.<sup>5</sup> Therefore, vertical harmonization is needed as much as horizontal. Among other impediments, this lack of harmony in public sector accounting practices makes accounting information less useful for cross-country comparisons. Horizontal harmonization of public sector accounting leads to comparable cross-country information of various public entities, while vertical harmonization enables comparison and facilitates the consolidation of accounting information of central, regional, and local governments as well as all public sector organizations within the same coun-

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<sup>2</sup> Noel Hyndman and Ciaran Connolly, “Accruals Accounting in the Public Sector: A Road Not Always Taken,” *Management Accounting Research* 22, no. 1 (2011): 36–45, <https://doi.org/10.1016/j.mar.2010.10.008>.

<sup>3</sup> Marco Bisogno and Beatriz Cuadrado-Ballesteros, “Gestión financiera del sector público y calidad de la democracia: El papel de los sistemas contables,” *Revista de Contabilidad-Spanish Accounting Review* 23, no. 2 (2020): 238–48, <https://doi.org/10.1016/10.6018/rcsar.369631>.

<sup>4</sup> Giovanna Dabbico, “The Impact of Accrual-Based Public Accounting Harmonization on EU Macroeconomic Surveillance and Governments’ Policy Decision-Making,” *International Journal of Public Administration* 38, no. 4 (2015): 253–67, <https://doi.org/10.1080/01900692.2015.999581>.

<sup>5</sup> Ernst & Young, *Overview and Comparison of Public Accounting and Auditing Practices in the 27 EU Member States*, report prepared for Eurostat (Brussels: Eurostat, 2012), <https://ec.europa.eu/eurostat/documents/1015035/4261806/study-on-public-accounting-and-auditing-2012.pdf/5ad43e2b-2ba7-4b05-afab-d690fc2ad9dd>.



try. The need for such harmonization of public sector accounting across the EU countries has resulted in the promotion of accounting standards suitable for all public entities. At the time, it was believed that IPSAS could serve as a potentially suitable unifying framework, but the results were not encouraging. The most noticeable impediment for IPSAS adoption in EU member states is the fact that these standards are mainly derived from International Financial Reporting Standards (IFRS) which are used in the private sector.<sup>6</sup> Consequently, some facets of IPSAS cannot be entirely adopted for the purposes of public sector activities. Tobias Polzer and Christoph Reichard thoroughly examined the suitability of IPSAS implementation in EU member countries.<sup>7</sup> Their empirical research revealed that the IPSAS are not yet fully developed or mature, shaped too much according to International Financial Reporting Standards (IFRS) and insufficiently adapted to public sector particularities.<sup>8</sup> It should also be emphasized that IPSAS are not precise enough for practitioners in public sector accounting as they offer too many options and opportunities for accounting interpretation. The implementation of IPSAS was seen as a long-term and quite costly project. Furthermore, IPSAS are not clearly linked to the European System of Accounts (ESA) and the related issue of national accounts. IPSAS are perceived as rather complex and in some way abstract (particularly for small public entities). The lack of involvement of governmental organizations in the

<sup>6</sup> David Heald and Ron Hodges, "Will 'Austerity' Be a Critical Juncture in European Public Sector Financial Reporting?," *Accounting, Auditing & Accountability Journal* 28, no. 6 (2015): 993–1015, <https://doi.org/10.1108/AAAJ-04-2014-1661>; Rowan H. Jones and Josette Caruana, "EPSAS—Worrying the Wrong End of the Stick?," *International Journal of Public Administration* 38, no. 4 (2015): 240–52, <https://doi.org/10.1080/01900692.2015.999577>; Caroline Aggestam Pontoppidan and Isabel Brusca, "The First Steps towards Harmonizing Public Sector Accounting for European Union Member States: Strategies and Perspectives," *Public Money & Management* 36, no. 3 (2016): 181–88, <https://doi.org/10.1080/09540962.2016.1133970>; Francesca Manes Rossi, Sandra Cohen, Eugenio Caperchione, and Isabel Brusca, "Harmonizing Public Sector Accounting in Europe: Thinking Out of the Box," *Public Money & Management* 36, no. 3 (2016): 189–96, <https://doi.org/10.1080/09540962.2016.1133976>; Lasse O. Oulasvirta and Stephen J. Bailey, "Evolution of EU Public Sector Financial Accounting Standardisation: Critical Events that Opened the Window for Attempted Policy Change," *Journal of European Integration* 38, no. 6 (2016): 653–69, <https://doi.org/10.1080/07036337.2016.1177043>; Josette Caruana, Giovanna Dabbicco, Susana Jorge, and Maria Antónia Jesus, "The Development of EPSAS: Contributions from the Literature," *Accounting in Europe* 16, no. 2 (2019): 146–76; Linda A. Kidwell and Suzanne Lowensohn, "Participation in the Process of Setting Public Sector Accounting Standards: The Case of IPSASB," *Accounting in Europe* 16, no. 2 (2019): 177–94, <https://doi.org/10.1080/17449480.2019.1624924>; Tobias Polzer and Christoph Reichard, "IPSAS for European Union Member States as Starting Points for EPSAS: Analysis of the Discourses among Countries and Stakeholders," *International Journal of Public Sector Management* 33, no. 2/3 (2019): 247–64, [https://doi.org/10.1057/978-1-137-55269-3\\_8](https://doi.org/10.1057/978-1-137-55269-3_8).

<sup>7</sup> Polzer and Reichard, "IPSAS for European Union Member States," 247–64.

<sup>8</sup> *Ibid.*, 261.

development and implementation of IPSAS and the need for national legislation of each EU member country to modify existing laws and regulations to fit public sector accounting reform are additional issues that should be considered.<sup>9</sup> Furthermore, budgetary planning is a crucial process strongly related to public sector accounting. Since budgetary system is not covered by any of the 42 standards, IPSAS are not considered applicable for public sector purposes.<sup>10</sup> In addition, Lasse Oulasvirta points out that the IPSAS did not play an important role in most local and central government accounting reforms in Europe.<sup>11</sup> According to Markus Frintrup, Lisa Schmidhuber, and Dennis Hilgers, it can be concluded that IPSAS “have insufficiently moved Europe towards accounting harmonization.”<sup>12</sup>

As for the positive effects of IPSAS, David Heald and Ron Hodges single out the main benefit of IPSAS implementation; namely, setting a stage for a uniform accounting framework and consequently facilitating public sector consolidations (including state-owned business enterprises).<sup>13</sup>

To further its movement towards uniform and transparent public sector accounting standards, in 2013 the EC announced EPSAS—a project aiming to promote harmonized public sector accounting standards across the EU member states. Professional independence, impartiality, legitimacy, transparency, competence and capacity, cost effectiveness, and accountability are the main principles on which this project is based.<sup>14</sup> These accounting standards are be-

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<sup>9</sup> Heald and Hodges, “Will ‘Austerity’ Be a Critical Juncture,” 993–1015.

<sup>10</sup> Giuseppe Grossi and Michela Soverchia, “European Commission Adoption of IPSAS to Reform Financial Reporting,” *Abacus* 47, no. 4 (2011): 525–52, <https://doi.org/10.1111/j.1467-6281.2011.00353.x>; Johan Christiaens et al., “The Effect of IPSAS on Reforming Government Financial Reporting,” *International Review of Administrative Sciences* 81, no.1 (2015): 158–77, <https://doi.org/10.1177/0020852314546580>; Johan Christiaens and Simon Neyt, “International Public Sector Accounting Standards (IPSAS),” in *Public Sector Accounting*, ed. Tjerk Budding, Giuseppe Grossi, and Torbjörn Tagesson (London: Routledge, 2014): 23–64; Aggestam, Pontoppidan, and Brusca, “First Steps,” 181–88.

<sup>11</sup> Lasse Oulasvirta, “The Reluctance of a Developed Country to Choose International Public Sector Accounting Standards of the IFAC: A Critical Case Study,” *Critical Perspectives on Accounting* 25, no. 3 (2014): 285, <https://doi.org/10.1016/j.cpa.2012.12.001>.

<sup>12</sup> Markus Frintrup, Lisa Schmidhuber, and Dennis Hilgers, “Towards Accounting Harmonization in Europe: A Multinational Survey among Budget Experts,” *International Review of Administrative Sciences* 88, no. 2 (2020): 390–410, <https://doi.org/10.1177/0020852320915640>.

<sup>13</sup> Heald and Hodges, “Will ‘Austerity’ Be a Critical Juncture,” 993–1015.

<sup>14</sup> European Commission, *Towards Implementing Harmonised Public Sector Accounting Standards in Member States: The Suitability of IPSAS for the Member States*, report from the Commission to the Council and the European Parliament (Brussels: European Commission, 2013), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0114&from=EN>; Heald and Hodges, “Will ‘Austerity’ Be a Critical Juncture,” 993–1015.

ing created as a tool for fiscal and budgetary integration with the aim to enable more reliable and comparable financial reporting by EU member countries. Giovanna Dabbicco and Mariano D'Amore explain the link between macroeconomics, accounting, and statistics.<sup>15</sup> They point out that the European macroeconomic surveillance system has limitations that became particularly evident during the global financial crisis. They suggest that the application of the EPSAS for macroeconomic surveillance would provide a broad scope of information within a controlled and audited accounting environment that should lead to more comprehensive fiscal surveillance. Therefore, EPSAS would make sense for the monitoring of the macro-prudential governance process of member states, tracing the state aid and fiscal discipline needed for the functioning of the Euro-zone as an optimal currency area.

According to Polzer and Reichard, standardization of public sector accounting in the EU should lead to transparency, comparability among countries, accountability, completeness of data, convergence of varying accounting systems, and higher reliability of data.<sup>16</sup>

While certain obstacles in the EPSAS implementation can be identified, many advantages are expected from this reform. In particular, EPSAS is expected to enhance the comparability and transparency of financial statements and enable sound decision-making at all levels of general government.<sup>17</sup> This can lead to greater accountability of governments since the leaders will be provided with more accurate accounting information. Hopefully, this information will make decision makers reflect on the long-term impact of their decisions, considering that sound management of public finances is crucial in achieving financial stability and sustainability. In addition, Dabbicco identifies the main prerequisites for the introduction of accrual accounting, as seen by various interested parties—public managers, policy makers, accounting professionals and academics.<sup>18</sup> These prerequisites, consistent with the introduction of EPSAS, include cultural acceptance, the creation of supportive information tech-

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<sup>15</sup> Giovanna Dabbicco and Mariano D'Amore, "Debate: Accounting for Macroeconomic Surveillance in Europe," *Public Money & Management* 36, no.3 (2016): 162–64.

<sup>16</sup> Polzer and Reichard, "IPSAS for European Union Member States," 254.

<sup>17</sup> PwC (PricewaterhouseCoopers), *Collection of Information Related to the Potential Impact, Including Costs, of Implementing Accrual Accounting in the Public Sector and Technical Analysis of the Suitability of Individual IPSAS Standards*, report 2013/S 107-182395 (Brussels: PwC, 2014), <https://ec.europa.eu/eurostat/documents/1015035/4261806/EPSAS-study-final-PwC-report.pdf>; PwC (PricewaterhouseCoopers), *Updated Accounting Maturities of EU Governments and EPSAS Implementation Cost*, EPSAS WG 20/07rev (Brussels: PwC, 2020), <https://ec.europa.eu/eurostat/documents/9101903/9700113/Updated-accounting-maturities-and-EPSAS-implementation-cost-june+2020.pdf>; Bianca Mann et al., "The Quest for a Primary EPSAS Purpose—Insights from Literature and Conceptual Frameworks," *Accounting in Europe* 16, no. 2 (2019): 195–218, <https://doi.org/10.1080/17449480.2019.1632467>; Bisogno and Cuadrado-Ballesteros, "Gestión financiera del sector público," 238–48.

<sup>18</sup> Dabbicco, "Impact of Accrual-Based Public Accounting Harmonization," 253–67.

nology, and the availability of qualified public sector accountants. Heald and Hodges emphasize that the successful EPSAS application also requires a sufficient degree of political support.<sup>19</sup> In addition, Gergely Harsányi et al. stress the importance of trained staff and IT system requirements, particularly in less developed EU countries.<sup>20</sup> Polzer and Reichard emphasize the importance of the political dimension, but even more so the necessity of taking into consideration the different starting positions of EU member states.<sup>21</sup>

Marco Bisogno and Beatriz Cuadrado-Ballesteros expect public sector accounting standardization to improve the quality of democracy, enhance accountability, and stimulate democratic participation.<sup>22</sup> Therefore, these positive effects are expected from EPSAS adoption as well. In that light, an analysis of the early stage of accounting reforms of the Austrian central government, city of Barcelona, Czech central government, city of Essen, Estonian central government, EU institutions, Flemish government, and French central government shows multiple resulting benefits: the efficient production of financial statements and quality of financial reporting, improvement of medium- to long-term budget planning, implementation of risk management, better asset management, reduction of administrative costs and burden, and implementation of cost analysis.<sup>23</sup> All the aforementioned public sector entities have already been applying accrual accounting as a necessary requirement for EPSAS implementation. Among the achieved advantages of the shift to accrual basis, the most important were accountability and transparency as well as better decision making.

### 3. Public Sector Accounting and Transparency in Croatia

National accounting regulations are embedded in national traditions and specific social-cultural backgrounds, and the process of public sector accounting institutionalization is very slow, which is a result of decades of the sedimen-

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<sup>19</sup> Heald and Hodges, "Will 'Austerity' Be a Critical Juncture," 993–1015.

<sup>20</sup> Gergely Harsányi et al., "EPSAS: Investment into the Future European Public Sector Accounting. Present and Future," *Public Finance Quarterly* 61, 4 (2016): 497.

<sup>21</sup> Polzer and Reichard, "IPSAS for European Union Member States," 259.

<sup>22</sup> Bisogno and Cuadrado-Ballesteros, "Gestión financiera del sector público," 238–48.

<sup>23</sup> PwC (PricewaterhouseCoopers), *Collection of Additional and Updated Information Related to the Potential Impacts of Implementing Accrual Accounting in the Public Sector: Items 3 and 4 of the Agenda*, report by PwC on behalf of Eurostat, EPSAS WG meeting (Brussels: PwC, 2018), <https://ec.europa.eu/eurostat/documents/9101903/9700113/Item+3+and+4+-+PwC+report+on+the+potential+impacts+of+accruals+implementation.pdf/8512d9dd-06e5-4a32-b750-29456518dbaa>.

tation of administrative, legal, and accounting traditions.<sup>24</sup> That the historical legacy plays an important role in creating a country's accounting culture is undoubtedly apparent in the case of the former Yugoslav countries. The process of systematic public sector reform is strongly influenced and hindered by "the postauthoritarian legacy, a formalistic administrative tradition, an elite mentality resistant to change, and also a political environment that is a playground of international actors and their conditionality policies directed toward state-building."<sup>25</sup> While Croatia was part of the former Yugoslavia, the budget system was based on socialist self-management. Budget information was presented only to parliament, while responsibilities for the performance of government functions and the provision of public services were not clearly identified.<sup>26</sup> The communist heritage of the bureaucratic machinery created a closed and rigid structure prone to "external influences" of politics and interest groups.<sup>27</sup> The process of transition to a modern public sector accounting system began in the 1990s when Croatia gained its independence, and initially was based only on budget reporting using a cash basis. With the introduction of the Treasury, budget reporting was based on a cash-modified basis, while conditions for the adoption of a full accrual basis were established.<sup>28</sup> According to Marijana Bađun, one of the main barriers to a successful transition to a democratic society and market economy and one of the greatest obstacles in Croatia's accession to the EU was the low level of the rule of law in combination with an inadequate public administration.<sup>29</sup> The Croatian public administration during the transition time was characterized by "the lack of appropriate organization culture," "the inheritance of clientelism and paternalism," and "a culture of secrecy favoring nepotism and arbitrariness."<sup>30</sup> Miloš Đinđić and Dragana Bajić argue that the history of politicization of public administration, deeply rooted in the governments of the Western Balkans, slowed down a sys-

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<sup>24</sup> Daniele Natalizi, "Public Sector Accounting Contexts in the EPSAS Change: A Comparative Study of Italy and Sweden," *International Review of Administrative Sciences* 88, no. 1 (2020): 3, <https://doi.org/10.1177/0020852319894680>.

<sup>25</sup> Miloš Đinđić and Dragana Bajić, "Challenges of Public Administration Reform in Serbia: Between Requirements and Reality," *REGION: Regional Studies of Russia, Eastern Europe and Central Asia* 7, no. 2 (2018): 24, <https://doi.org/10.1353/reg.2018.0014>.

<sup>26</sup> Jelena Poljašević, Vesna Vašiček, and Tatjana Jovanović, "Comparative Review of Dual Reporting in Public Sector in Three South-east European Countries," *Journal of Public Budgeting, Accounting & Financial Management* 31, no. 3 (2019): 332, <https://doi.org/10.1108/JPBAFM-02-2019-0035>.

<sup>27</sup> Marijana Bađun, "Governance and Public Administration in the Context of Croatian Accession to the European Union," in *Croatian Accession to the European Union: Institutional Challenges*, ed. Katarina Ott (Zagreb: Institut za javne financije; Friedrich Ebert Stiftung, 2006), 156.

<sup>28</sup> Poljašević, Vašiček, and Jovanović, "Comparative Review of Dual Reporting," 337.

<sup>29</sup> Bađun, "Governance and Public Administration," 132.

<sup>30</sup> *Ibid.*, 152.

tematic reform of the administrative and accounting system in Serbia as well.<sup>31</sup> A “fragile” and “fake” reform, as they label it, is “characterized by accepting formal standards that the system finds difficult to absorb despite both internal and external pressures to apply them.”<sup>32</sup>

Modern public sector accounting reform in Croatia started in 2001, and shortly after its commencement, in 2002, a modified accrual accounting (as a gradual transition from cash to accrual basis accounting) was implemented. Application of the modified accrual basis requires the recording of revenues at the moment of payment (cash flow principle), while the time of accrual determines recording of the expenses.<sup>33</sup> Public sector accounting in Croatia is regulated by the ordinance on public sector accounting and charting of accounts. All general government entities are obligated to apply it. It is necessary to point out that the regulatory framework of public sector accounting in Croatia is country specific and, currently, does not quite rely on IPSAS. Namely, budgetary accounting is not based on the direct application of IPSAS, although the Budget Act states that public sector accounting should be based upon generally accepted accounting principles—accuracy, verity, reliability, and individual presentation of business events.<sup>34</sup> Budget execution reports and financial statements are two main segments of the reporting system in Croatia. Public sector entities in Croatia have been obligated to disclose those reports on their official web site since 2015, which has strongly contributed to budgetary transparency.

In general terms, the accounting tradition of a country’s public sector depends of a myriad of historic circumstance but, most often, it has some economic rationale in the complexities of the public sector, its services, the share of the government sector (e.g., state owned enterprises, investment and public procurement) in GDP. At this point, we briefly sketch the evolution of the Croatian public sector in terms of its size and structure. With regard to measurement, the concept of government size is complex, and no single comprehensive measure exists that can embrace all aspects of government intervention in the economy. The size of government in an economy unquestionably depends on various aspects of the government that are difficult to gauge—the scope of institutions and individuals that the government owns, controls, and/or regulates. In practice, a widely used measure of the size of the government sector in the economy is the share of government expenditure in total expenditures or outputs, approximated by GDP. The expenditure data, however, do not take into account quasi-fiscal activities and government regulation, which is yet another important role that governments play in the economy. Acknowledging

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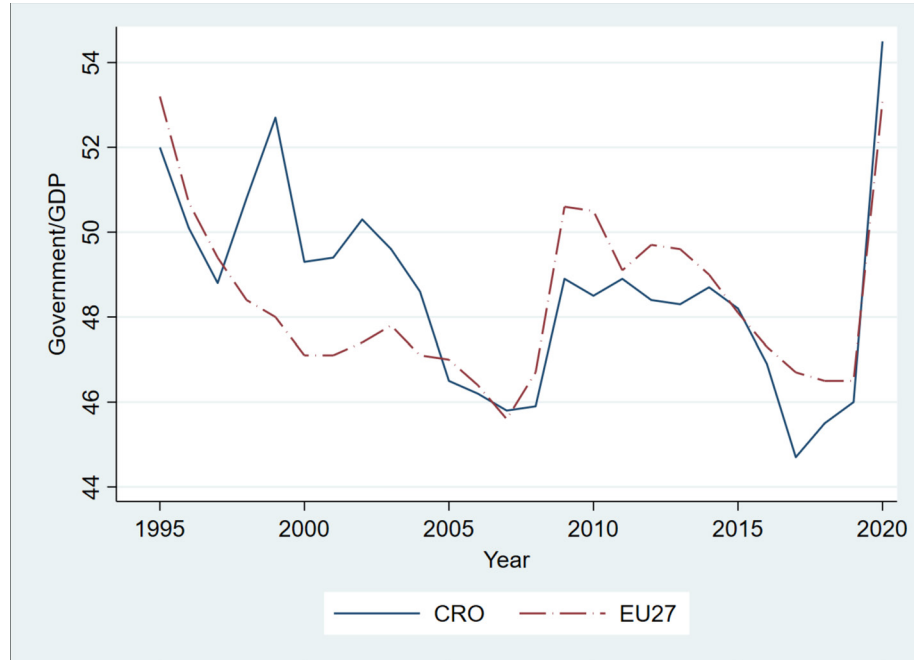
<sup>31</sup> Đinđić and Bajić, “Challenges of Public Administration Reform,” 10.

<sup>32</sup> Ibid., 12.

<sup>33</sup> Martina Dragija Kostić, Tatjana Jovanović, and Jelena Jurić, “Cost Management at Higher Education Institutions—Cases of Bosnia and Herzegovina, Croatia and Slovenia,” *Central European Public Administration Review* 17, no. 1 (2019): 137, <https://doi.org/10.17573/cepar.2019.1.07>.

<sup>34</sup> Poljašević, Vašiček, and Jovanović, “Comparative Review of Dual Reporting,” 336.

this limitation, we portrait the evolution of Croatian government size using the ratio of total general government expenditure (all types of government expenditures accruing at all levels of government) to GDP since 1995. As shown in Figure 1, during the period 1995–2020, the government sector in Croatia absorbed on average 48.6 percent of GDP, fluctuating from its minimum at 44.7 percent of GDP in 2017 to its peak at 54.5 percent of GDP in 2020. The comparable government shares in EU-27 were almost the same, amounting to 48.4 percent of GDP, on average. Throughout the whole period, trends in the size of the Croatian government have followed those in EU-27, with slightly higher values in the period 1998–2005. Both Croatia and EU-27 experienced an increase in the proportion of GDP devoted to government expenditures in 2009. The highest break in both series happened in 2020, due to the COVID outbreak and increase in health-related services; government expenditures have risen by 18 percent in Croatia, and by 14 percent in EU-27 respectively.



**Figure 1.** The size of the government in Croatia and UE-27 during the period 1995–2020. *Source:* Eurostat (2022).

As for the structure of the Croatian government sector, the EUROSTAT data for 2020 show that almost 30 percent of total general government expenditures is allocated for the provision of social protection. The share of expenditures for economic affairs (which relate to agriculture, energy, mining, transport, communications, tourism, research and development, and others) makes up slightly more than 20 percent. Relatively smaller shares relate to health (13.5%), general public services (11.4%), education (10%), housing and com-

munity amenities (4.5%), public order and safety (4.5%), recreation, culture and religion (3.2%), defense (2%), and environmental protection (1.5%).

#### 4. Methodology and Results

The Croatian administrative-territorial structure is highly fragmented, with numerous relatively small local governments that are, in general, fiscally and administratively undercapacitated and mostly underperform in terms of adequate and effective provision of the assigned public services. Along with inconsistent public service standards, the insufficient fiscal autonomy of subnational governments, and unbalanced sources of revenue, this fragmentation of the subnational governance structure is one of the fundamental problems in the Croatian fiscal decentralization system.<sup>35</sup> It reduces the transparency of subnational fiscal accounts, creates policy uncertainty, and, thereby, contributes to an unfavorable business environment.<sup>36</sup>

The process of fiscal decentralization in Croatia went through four different phases: administrative and political decentralization, as a precondition for the fiscal decentralization process (1994–2001); fiscal decentralization (2001–07); reform of the fiscal decentralization system (2007–15); and reform of the fiscal equalization system (2015–present).<sup>37</sup>

Despite numerous efforts to promote and reform fiscal decentralization in Croatia, the degree of expenditure and revenue decentralization is still limited. Although the range of decentralized public functions has been expanding and the quality of their provision increasing, decentralization trends since 2001 indicate that subnational governments in Croatia “lack sufficient tax revenue autonomy, which means that the decentralized system underperforms in terms of spending efficiency, accountability, and overall fiscal responsibility.”<sup>38</sup> Additional identified restricting factors are the fact that Croatia does not have an annual real estate property tax and the lack of clarity and transparency of subnational fiscal accounts.

Building upon the above mentioned issue, in the empirical part of this research we aim to explore the existing level of awareness, attitude, and expectations of public sector accountants employed in local and regional governments and public institutions towards implementation of EPSAS in Croatia. The focus on public sector accountants’ attitudes towards EPSAS is perfectly reason-

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<sup>35</sup> The World Bank, *Fiscal Decentralization in Croatia* (Washington, DC: The World Bank, 2021), <https://www.worldbank.org/en/country/croatia/publication/fiscal-decentralization-in-croatia>.

<sup>36</sup> International Monetary Fund, *IMF Country Report No. 16/188 Republic of Croatia 3* (Washington, DC: International Monetary Fund, 2016), <https://www.imf.org/external/pubs/ft/scr/2016/cr16188.pdf>.

<sup>37</sup> The World Bank, *Fiscal Decentralization in Croatia*, 15.

<sup>38</sup> *Ibid.*, 9.



able since they are on the front line of implementing government policies and relevant accounting regulations. Public sector accountants prepare financial statements and produce the accounting information and are expected to be well informed about the reform processes of national accounting systems.

To collect data on public sector accountants' perceptions and expectations towards EPSAS implementation in Croatia, a structured online questionnaire was designed according to the conceptual framework and empirical results of previous studies regarding the purposes and outcomes of EPSAS.<sup>39</sup> For the purpose of this study, 497 respondents were contacted through e-mail with an invitation to fill out the questionnaire during June 2020 and July 2020. Criteria for the choice of potential respondents was their employment in accounting positions in local and regional government units and public institutions. Potential respondents were identified using publicly available information from websites, from which names and e-mail addresses were gathered and added into the contact database. This database included potential respondents from a wide array of major local and regional government units and public institutions, hence—while not comprehensive or representative in the full sense of that word (which is further elaborated on in research limitations)—it still provided a good starting point in terms of coverage of the target population in the Republic of Croatia. Electronic mail messages containing a link to the questionnaire and accompanying text explaining the study's purpose were sent to all the contacts in the database. Out of 497 e-mails sent, 178 respondents initiated the questionnaire. However, out of those 178, 22 were eliminated from the final analysis due to various issues detected during the data verification phase (for instance, a significant number of omitted questions/missing data, interrupted questionnaires, etc.). Hence, 156 useful responses were received, giving a 30.2 percent response rate. While there are no universal rules on deciding on acceptable response rates, literature suggests using other similar surveys as a benchmark in deciding whether a sample is acceptable.<sup>40</sup> Thus, when looking at empirical research conducted on EPSAS implementation and related topics and their respective response rates (for instance, Markus Frintrup, Lisa Schmidhuber, and Dennis Hilgers—5%; Cristian Carini, Davide Giacomini, and Claudio Teodori—17%; Jelena Poljašević, Vesna Vašiček, and Martina Dragija Kostić—21.8%) it can be concluded that the response rate achieved in this research can be deemed satisfactory.<sup>41</sup>

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<sup>39</sup> Bisogno and Cuadrado-Ballesteros, "Gestión financiera del sector público," 238–48; Mann et al., "Quest for a Primary EPSAS Purpose," 195–218; PwC, *Collection of Additional and Updated Information*.

<sup>40</sup> Martyn Denscombe, *The Good Research Guide: For Small-scale Social Research Projects*, 5th ed. (Maidenhead: Open University Press, 2014).

<sup>41</sup> Frintrup, Schmidhuber, and Hilgers, "Towards Accounting Harmonization in Europe," 1–21; Cristian Carini, Davide Giacomini, and Claudio Teodori, "Accounting Reform in Italy and Perceptions on the Local Government Consolidated Report," *International Journal of Public Administration* 42, no. 3 (2019): 195–204, <https://>

The public sector accountants were asked to assess, using a 5-point Likert-type scale (1 representing “absolutely disagree” and 5 being “absolutely agree”), seven specific aspects of the potential benefits of EPSAS implementation. As shown in Table 1, the results indicate that public sector accountants, on average, do not have high expectations (with the mean value attributed to each aspect of the potential benefits of EPSAS implementation ranging from 3.11 and 3.28).<sup>42</sup>

There are several factors that can explain such skepticism towards EPSAS implementation among public sector accountants in Croatia. A rigid accounting culture resistant to change is an obvious determinant. As pointed out by Oulasvirta, change in accounting practices entails a change in accountants’ habits and requires extra efforts in their daily operations to adopt to new guidelines and rules.<sup>43</sup>

**Table 1.** Descriptive statistics: Expected benefits of EPSAS implementation.

|   | N   | Minimum | Maximum | Mean | Std. deviation |
|---|-----|---------|---------|------|----------------|
| Quality and accessibility of financial data                     | 156 | 1       | 5       | 3.15 | 1.011          |
| Better control of budget implementation                         | 156 | 1       | 5       | 3.28 | 1.015          |
| Public policy evaluation improvement                            | 156 | 1       | 5       | 3.11 | .981           |
| Greater transparency of public expenditures                     | 156 | 1       | 5       | 3.22 | 1.091          |
| Advanced efficiency of public management                        | 156 | 1       | 5       | 3.12 | 1.071          |
| More user-friendly accounting information                       | 156 | 1       | 5       | 3.15 | 1.070          |
| Increase of accountability (of politicians and public managers) | 156 | 1       | 5       | 3.28 | 1.157          |
| Valid N (listwise)  | 156 |         |         |      |                |

This reluctance among public sector accountants towards alterations in standard-setting processes is to be expected mainly at the early stages of the accounting change process. In addition, it could also be likely that public sector accountants are not fully familiar with all the new accounting requirements,

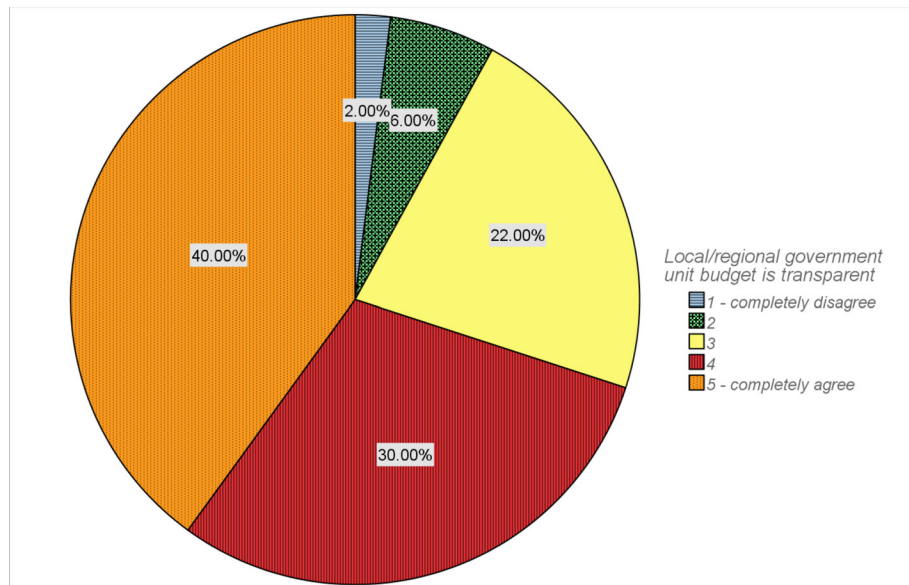
doi.org/10.1080/01900692.2017.1423500; Jelena Poljašević, Vesna Vašiček, and Martina Dragija Kostić, “Public Managers’ Perception of the Usefulness of Accounting Information in Decision-making Processes,” *Public Money & Management* 41, no. 6 (2021): 456–65, <https://doi.org/10.1080/09540962.2021.1906534>.

<sup>42</sup> The collected data were analyzed using the IBM-SPSS 23 program.

<sup>43</sup> Oulasvirta, “Reluctance of a Developed Country,” 272–85.

or that they find them complicated and imprecise. In that light, Berit Adam et al. point out that existent public sector accounting reforms in Europe create a demand for qualified accountants for public administrations.<sup>44</sup> Analyzing responses obtained by a questionnaire provided to selected professors in relevant higher education institutions in Germany, Italy, Portugal, and Spain, they conclude that little attention is being paid to the need to educate qualified future staff. Consequently, due to that gap in higher education institutions' programs, public administrations will then have to invest in on-the-job training and upskilling, which is costly and takes time.<sup>45</sup> Frintrup, Schmidhuber, and Hilgers point to yet another potential barrier to implementing EPSAS—information technology costs<sup>46</sup>—that could also be relevant in the case of Croatia.

Increased accountability of politicians and public managers/leaders of public sector entities and better budgetary control are perceived by public sector accountants as the most promising aspects of the future EPSAS implementation. On the other hand, they are mostly skeptical with regard to improving public policy evaluation and achieving higher efficiency in public management due to EPSAS adoption.



**Figure 2.** Perceived local and regional government budgetary transparency, as calculated by author.

<sup>44</sup> Berit Adam et al., "Are Higher Education Institutions in Europe Preparing Students for IPSAS?," *International Journal of Public Sector Management* 33, no. 2 (2020): 363–78, <https://doi.org/10.1108/IJPSM-12-2018-0270>.

<sup>45</sup> *Ibid.*, 375.

<sup>46</sup> Frintrup, Schmidhuber, and Hilgers, "Towards Accounting Harmonization in Europe," 2.

Public sector accountants were also asked to assess the perceived level of budget transparency of the subnational governments using a 5-point Likert-type scale. As presented in Figure 1, the majority of respondents (40%) perceives the budget of local and regional governments as fully transparent, with an additional 30 percent of respondents expressing a high level of agreement with such a view. The finding that 70 percent of respondents perceive local and regional budgets as fully or almost fully transparent is rather promising. However, due to methodological limitations related to the convenience sampling used in this research, our findings should be seen only as an indication of the perceived level of public sector transparency. On the other hand, only 2 percent of accountants completely disagreed and an additional 6 percent leaned toward budgets not being transparent. Finally, 22 percent of respondents expressed a neutral stance on the issue. While having a large proportion of respondents express a high perceived transparency of public budgets is encouraging, there is still a significant segment of those who are either neutral or do not perceive transparency to be a characteristic of local public budgets in Croatia. In that regard, there is some indication that the Croatian public sector is becoming more transparent over time. Within a recent project investigating the transparency of Croatian subnational governments, Katarina Ott et al. focused on defining the number of budget documents available online on the webpages of subnational units. The analysis was conducted without a detailed breakdown of the documents' content, emphasizing that the availability of such documents is considered only the first step towards comprehensive budget transparency and a key prerequisite for educating the general public about local budgets.<sup>47</sup> The main findings rated the average budget transparency of all sub-national budgets—measured by the published annual budget reports in 2018, mid-year budget report in 2019, recommendation and voted budget as well as budget guidelines for citizens for 2020, available on their webpages from November 2019 to April 2020—at 4.1 points out of 5. In addition, over time, a comparison of results indicates that the average subnational budget transparency increased significantly (from 1.8 in 2015 to 4.1 in 2020).

On average, public sector accountants do not expect the forthcoming accounting reform to improve any of the key aspects related to budgetary transparency. In order to test whether there is a significant difference in expectations of benefits from introduction of EPSAS between public accountants with differing propensity towards fiscal transparency and public participation in budgeting, a rank-based nonparametric Kruskal Wallis test was employed (Table 2).

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<sup>47</sup> Katarina Ott et al., "Proračunska transparentnost županija, gradova i općina: Studeni 2019–travanj 2020," in *Institut za Javne Financije, Povremeno glasilo instituta za javne financije* (Zagreb: IFJ, 2020), <https://www.ijf.hr/upload/files/file/newsletter/119.pdf>.

**Table 2.** Propensity toward participative budgeting and expectations from EPSAS: Results<sup>a,b</sup>

|   | Null Hypothesis  | Test statistic | Df | Sig. | Decision about null hyp. |
|---|--|----------------|----|------|--------------------------|
| 1 | The distribution of “improved quality and accessibility of financial data” is the same across categories | 8,149          | 4  | .086 | Retain                   |
| 2 | The distribution of “better budget control implementation” expectations is the same across categories    | 6,526          | 4  | .163 | Retain                   |
| 3 | The distribution of “public policy evaluation improvement” is the same across categories                 | 15,175         | 4  | .004 | Reject                   |
| 4 | The distribution of “greater transparency of public expenditures” is the same across categories          | 12,151         | 4  | .016 | Reject                   |
| 5 | The distribution of “higher efficiency of public management” is the same across categories               | 13,125         | 4  | .011 | Reject                   |
| 6 | The distribution of More user-friendly accounting information is the same across categories              | 16,303         | 4  | .003 | Reject                   |
| 7 | The distribution of Increase of accountability is the same across categories                             | 14,729         | 4  | .005 | Reject                   |

a. Kruskal Wallis Test

b. Grouping Variable: Propensity towards including public in budgeting process

The results indicate that expectations of benefits from EPSAS implementation are indeed distributed differently among accountants, based on their propensity towards transparency and participatory budgeting. Expectations from EPSAS are more positive among accountants who perceive budgetary transparency as important. The only elements showing no significant differences in distribution across these groups are expectations related to the availability of financial data and implementation of budget controls. Such results are expected as those facets of budget management are not directly related to the general public.

Such a finding holds the potential for actual benefits to arise from the implementation of new standards. A positive attitude towards EPSAS will likely lead to reduced friction caused by human factors during the implementation phase. Furthermore, recent trends in fiscal transparency and the inclusion of the public in budgeting matters on the local and regional governmental level can serve as good illustrations of future advantages stemming from the implementation of EPSAS—namely, increased accountability of leaders (politicians and public managers), higher level of public management efficiency, better

control of budget implementation, greater transparency of public expenditures, and increased quality and accessibility of financial data.

## 5. Experiences of Other EU Countries

The implementation of EPSAS is an ongoing process that develops slowly and unevenly across the EU countries. As pointed out by Jelena Poljašević, Vesna Vašiček, and Tatjana Jovanović, public sector accounting systems across Europe are made up of a pluralistic mosaic of not only different accounting bases but also heterogeneous systems applied by the different levels of government within a given country.<sup>48</sup> Polzer and Reichard point to the importance of institutional contexts—political, historical and cultural differences across the EU countries—that need to be addressed.<sup>49</sup> In a nutshell, they stress that “institutional traditions of actors (and countries) and institutional pressures are key to understanding the E/IPSAS debate.”<sup>50</sup> Vincenzo Sforza and Riccardo Cimini demonstrate that EPSAS alone is not going to be sufficient to increase the quality and transparency of public sector accounting or comparability or to overcome the noticeable lack of public sector accounting harmonization, due to institutional variables that are difficult to control for.<sup>51</sup> Analyzing accounting data for 28 EU member states, they conclude that the success of the implementation of the new standards depends significantly on public policies that influence national accounting rules, the processes in internal control systems, institutions, and accounting and auditing professions. Consequently, successful implementation of an international public sector accounting harmonization process, such as EPSAS, requires a good understanding of idiosyncratic national factors and conditions in each country involved in the process.

To gain a better understanding of the above-stated issue, in what follows, we review the relevant recent studies that identify the potential influential factors of national public sector accounting standard-setting contexts that can have an effect on the international public sector accounting harmonization process.

In a comparative study, Daniele Natalizi focuses on the main characteristics of standard-setting processes for the public sector in Italy and Sweden.<sup>52</sup> While public sector accounting standard-setting contexts in the two countries differ to an extent, there are some general factors that can support key actors in the public sector and contribute to a smoother process of international harmo-

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<sup>48</sup> Poljašević, Vašiček, and Jovanović, “Comparative Review of Dual Reporting,” 329.

<sup>49</sup> Polzer and Reichard, “IPSAS for European Union Member States.”

<sup>50</sup> *Ibid.*, 249.

<sup>51</sup> Vincenzo Sforza and Riccardo Cimini, “Central Government Accounting Harmonization in EU Member States: Will EPSAS be Enough?,” *Public Money & Management* 37, no. 4 (2017): 301–08, <https://doi.org/10.1080/09540962.2016.1266191>.

<sup>52</sup> Natalizi, “Public Sector Accounting Contexts.”

nization. In particular, a flexible legal system, efficient auditing, vertical harmonization, an inclusive and participatory standard-setting process, and the maturity of accrual accounting are identified as the key areas that should be given priority in both Italy and Sweden, but also in all other EU countries, as to facilitate the EU harmonization process in public sector accounting.<sup>53</sup> From a conceptual point of view, employing a comprehensive document analysis, Polzer and Reichard investigate different institutional contexts in France and Germany demonstrating that the established accounting traditions within a country largely determine debates on I/EPASAS.<sup>54</sup> Germany is generally averse to accruals and the accounting standard changes. The authors expect that the German government will participate in the EPSAS debate in a conservative and cautious manner and will try to prevent the establishment of mandatory and IPSAS-based European standards. This skepticism towards I/EPASAS implementation is partly motivated by the belief that IPSAS are “too much capital market driven and neglecting the well-established prudence principle.”<sup>55</sup> France, on the other hand, implemented accrual accounting in 2006—a reform that proved to be a long and expensive project, according to Frintrup, Schmidhuber, and Hilgers.<sup>56</sup> There is certain criticism against IPSAS in France; namely, it is considered as not being adequate for public sector accounting needs and not detailed enough to achieve the aim of comparability. Accordingly, France supports the introduction of EPSAS but only as a nonbinding recommendation.<sup>57</sup> Oulasvirta uses literature review, interviews, documentary review, and participatory observation in the national government accounting board to analyze the reasons why Finland, whose national reporting system is based on the revenue-expense approach and mainly on historical cost valuation, refused to adopt IPSAS.<sup>58</sup> Relying on the institutional theory framework, which offers a good analytical tool to interpret the outcome of a national standard setter’s work regarding IPSAS, Oulasvirta explains that such resistance towards change in the prevailing accounting culture is not surprising. When the ruling national accounting culture is “deeply rooted,” it may become so rigid that it slows down or even prevents the institutionalization of the new transnational accounting culture.<sup>59</sup> Building on work by Paul J. DiMaggio and Walter W. Powell,<sup>60</sup> Oulasvirta uses institutional isomorphism—coercive iso-

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<sup>53</sup> Ibid., 16.

<sup>54</sup> Polzer and Reichard, “IPSAS for European Union Member States.”

<sup>55</sup> Ibid., 259.

<sup>56</sup> Frintrup, Schmidhuber, and Hilgers, “Towards Accounting Harmonization in Europe,” 10.

<sup>57</sup> Ibid., 11.

<sup>58</sup> Oulasvirta, “Reluctance of a Developed Country,” 272–85.

<sup>59</sup> Ibid., 273.

<sup>60</sup> Paul J. DiMaggio and Walter W. Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” *American Sociological Review* 48, no. 2 (1983): 147–60.

morphism, mimetic isomorphism, and normative isomorphism—to explain why organizations (that is, the national accounting standard-setter and other actors in the Finnish governmental accounting field) are under social influences and pressures to adopt practices that are considered appropriate (that is, the new transnational accounting culture represented by IPSAS). Although accrual accounting has been implemented in the Finnish central government since 1998, Finland has not opted for IPSAS standards. It seems that the national accounting culture being challenged is so deeply rooted that neither mimetic (most members of the accounting standards board were not enthusiastic about IPSAS), normative (the neighboring Nordic countries had also not implemented IPSAS), nor coercive (no change prescribed by national or EU legislation) forces had a significant influence.<sup>61</sup>

Using a combination of web-based survey and secondary data from 23 EU member states (all EU countries, except for Bulgaria, Estonia, Hungary, Poland, and Croatia), Frintrup, Schmidhuber, and Hilgers investigate budget officials and experts' perceptions and expectations towards adopting EPSAS<sup>62</sup>. Although their findings demonstrate that there is a great variation in terms of EPSAS reform expectations among budget experts in different EU countries (and also within countries), the majority of the EU countries seem to have positive attitudes towards EPSAS. In particular, Italy, Greece, and Cyprus are countries with high positive attitudes towards introducing EPSAS. On the other hand, Czech and German experts are among those who have low average attitudes towards EPSAS. The authors attribute this negative attitude of German budget experts to "the German government's critique of the mandatory implementation of EPSAS on the basis of a loss in budgetary sovereignty and the costs associated with the implementation of EPSAS."<sup>63</sup> In addition, their results suggest that those budget experts with positive attitudes towards EPSAS adoption expect their organization to adopt EPSAS in the near future. Such findings are echoed by our empirical research and conclusions regarding attitudes towards EPSAS and likely effects of such attitudes on implementation of these standards.

In general, accrual accounting principle and IPSAS standards are quite in line with the Anglo-Saxon way of perceiving public sector accounting,<sup>64</sup> while Continental European countries seem to be moving towards it, typically by adapting some modification of cash or accrual base. As pointed out by Oulasvirta, in the Continental tradition, the budget has an important role and public sector accounting principles have been guided more by budgeting principles than the other way round, as in Anglo-Saxon countries, where "financial statements have been separated from budget information, and the emphasis has

<sup>61</sup> Oulasvirta, "Reluctance of a Developed Country," 282.

<sup>62</sup> Frintrup, Schmidhuber, and Hilgers, "Towards Accounting Harmonization in Europe."

<sup>63</sup> *Ibid.*, 10.

<sup>64</sup> Oulasvirta, "Reluctance of a Developed Country," 282.



been on reporting general purpose financial statement information to the public at large and to resource suppliers like lenders.”<sup>65</sup> The Nordic countries in their regulatory accounting tradition resemble more the Continental European than the Anglo-Saxon countries and adhere to their own national standard settings. It is no surprise that none of the Nordic countries has fully adopted IPSAS standards, with only the government of Sweden partly following it.<sup>66</sup>

In addition to the diversity of public accounting practices across EU countries, there are frequent situations where different accounting models are used at different levels of government (central, regional, or local), within a country. Isabel Brusca and Vicente Montesinos compare and classify the different types of public accounting systems used by local governments in 29 European countries.<sup>67</sup> Based on the characteristics of local government accounting, they conclude that there are three different groups; namely, countries with a low level of development—where a cash or modified cash criterion is used both for accounting and for budgeting; countries with a medium level of development—where an accrual or modified accrual basis is used in financial accounting, but the budget is elaborated with a modified cash or cash basis, including most Southern and Central and Eastern European countries; and countries with a high level of development—where financial information and budgetary reporting are elaborated with the same criteria, i.e., a modified accrual or accrual basis, including the United Kingdom, the Nordic countries, and the Netherlands.

Despite the differences, as a general conclusion, it can be said that “the accounting systems in many countries currently are becoming more uniform, searching for a model based on accrual accounting and new public management.”<sup>68</sup>

## Conclusion

Public sector transparency is one of the main prerequisites for achieving sustainable economic growth and social cohesion. Transparent public sector management requires a “reliable, clear, comprehensible, comparable, useful, easily accessible and available financial reporting, complying with the requirements and qualitative features of the accounting framework.”<sup>69</sup> The 2008/09 economic crisis, and even more the 2020 crisis due to the COVID-19 pandemic, demonstrate, among other issues, just how important it is for governments to have

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<sup>65</sup> Ibid.

<sup>66</sup> Ibid.

<sup>67</sup> Isabel Brusca and Vicente Montesinos, “Developments in Financial Information by Local Entities in Europe,” *Journal of Public Budgeting, Accounting & Financial Management* 22, no. 3 (2010): 299–324, <https://doi.org/10.1108/JPBAFM-22-03-2010-B001>.

<sup>68</sup> Ibid., 320.

<sup>69</sup> Brusca et al., “IPSAS, EPSAS and Other Challenges.”

an effective and transparent fiscal system. In that regard, the responsibilities of fiscal policy makers should be stronger and defined by law; moreover, the degree of awareness of the general public in regards to their basic rights should be increased, and the availability of information about fiscal processes is one of those basic rights.

Nowadays many European countries, Croatia included, are undertaking substantial efforts to increase the degree of public sector transparency. To that aim, national and international bodies of government have induced essential public sector accounting reforms. There are many proponents of standardization as a form of strict harmonization of public sector accounting systems, which is expected to increase fiscal transparency as well as accountability. Those objectives, however, can only be achieved if EU member states are willing to apply the newly developed standards.<sup>70</sup> Lasse O. Oulasvirta and Stephen J. Bailey point out that public sector accounting standardization is “a radical policy change in the EU,”<sup>71</sup> while the main anticipated problems of this long-term process are related to the fact that there are significant dissimilarities in member states’ public sector budgetary and financial accounting policies and practices. There are also many technical and methodological issues regarding collection of micro-data for government financial statistics. Likewise, issues related to “creative” accounting methods in producing government statistics may remain (although in some other form). In that respect, the way to EU accounting harmonization and EPSAS adoption is long and subject to many obstacles.

Recent studies on public sector accounting reforms are mainly focused on conceptualization and discussion of the forthcoming accounting reform across all EU member countries. This paper takes a case study approach by focusing on the existing level of awareness, attitude, and expectations of public sector accountants at subnational levels of government towards implementation of EPSAS in Croatia. As noted by Frintrup, Schmidhuber, and Hilgers, in this early stage of EPSAS development, understanding the factors associated with a country’s decision to adopt them could be helpful for practitioners and professionals.<sup>72</sup> While still applying a modified accrual accounting model at all government levels and in all public sector entities, Croatia, like many other EU member states, is on its path to convergence to accrual accounting, which is a prerequisite for EPSAS implementation. This research suggests that Croatian public accountants, while perceiving local and regional budgets as quite or fully transparent, are not particularly optimistic regarding the expected outcomes of EPSAS implementation. Furthermore, a clear relationship between a propensity towards transparent and participatory budgeting and expected benefits of EPSAS is also revealed. Based on our findings, it can be expected

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<sup>70</sup> Frintrup, Schmidhuber, and Hilgers, “Towards Accounting Harmonization in Europe,” 3.

<sup>71</sup> Oulasvirta and Bailey, “Evolution.”

<sup>72</sup> *Ibid.*, 3.

that the present transparency levels and public accountant's attitudes towards participatory budgeting determine expected EPSAS benefits. This finding implies that existing public sector transparency levels and future EPSAS benefits are endogenously determined. In other words, they affect each other simultaneously. Consequently, countries with more transparent public sectors can be expected to have a shorter and more successful EPSAS adoption journey.

By exploring the attitudes and perceptions of public accountants towards adopting EPSAS in Croatia, this paper contributes to the ongoing discourse on EPSAS in the EU. The uncertainty around the final output of EPSAS implementation calls for more "country-based" studies to reveal how different countries have been approaching the EPSAS project. Given that the empirical literature on public sector accounting reform in Croatia is very scarce, by scrutinizing the expectations and general attitude of public accountants, as one of the major actors in the process of EPSAS implementation, this paper sheds light on the ongoing adoption of the EPSAS project in this part of the EU and contributes to the literature on public sector accounting harmonization.

This study, however, is subject to a number of limitations that might represent avenues for further research. A more thorough investigation of the reasons that explain why public sector accountants in Croatia do not have a more optimistic attitude towards public sector accounting reform is needed. In particular, it could be useful to address the issue of (in)adequacy of education of future public accounting staff through the formal higher education system, given that, according to Berit Adam et al., EPSAS implementation is unlikely to be supported by an adequate number of properly equipped graduates in the EU.<sup>73</sup>

Furthermore, usage of questionnaires, and focusing on respondents' perceptions (vs. actual measures of constructs under consideration) makes all findings indicative primarily of subjective views expressed by respondents, rather than being objective indicators of the effectiveness of underlying processes that are being considered in this research. While all efforts were made to comprehensively cover the target population with the sampling frame used (i.e., contact database) and to motivate respondents towards participation, the final sample used in this research should still be considered a convenience sample. This, combined with the potential for errors arising from the fact that respondents decided whether or not to participate on their own, making findings susceptible to self-selection biases, means that empirical findings from this research should be seen primarily as indicative and warranting further research on the topic.

It is still early to draw explicit conclusions about the overall effects of implementation of EPSAS across the EU member states. Francesca Manes-Rossi, Sandra Cohen, and Isabel Brusca warn that, in the EPSAS development process, the role of academics has been minimal, both in terms of their involve-

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<sup>73</sup> Adam et al., "Are Higher Education Institutions in Europe Preparing Students for IPSAS?," 377.

ment in debates and the deliberation process, and their acknowledgement as experts through their research.<sup>74</sup> The authors conclude that “the ideas, reservations, and recommendations raised by academics both in relation to IPSAS, EPSAS and the use of accrual accounting in the public sector do not seem to have been taken into account.”<sup>75</sup> In that regard, this research contributes to filling this gap created by the underengagement of public sector accounting academics and researchers in the EPSAS development process.

There is yet another issue that should be addressed in future research on public sector accounting harmonization and transparency that was raised by Francisco José Bastida Albaladejo—the importance of trust.<sup>76</sup> Trust is one of the main elements of modern democracy and it backs up the legitimacy of the government as a link between citizens, institutions, and politicians. Public trust in government is important not only for citizens but also for policy makers, given that they need support for the implementation of public policies. In that light, transparency increases the degree of trust towards the government and thus, contributes to the creation of a positive environment enabling citizens to control institutions and participate in the decision-making processes that affect their everyday life. This is something that should be included in future research on public sector accounting harmonization and public sector transparency.

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<sup>74</sup> Francesca Manes-Rossi, Sandra Cohen, and Isabel Brusca, “The Academic Voice in the EPSAS Project,” *Public Money & Management* 41, no. 6 (2021): 1–9, <https://doi.org/10.1080/09540962.2021.1905263>.

<sup>75</sup> *Ibid.*, 6.

<sup>76</sup> Francisco José Bastida Albaladejo, “Transparency and Government Trust,” *Public Sector Economics* 43, no.1 (2019): 15–19, <https://doi.org/10.3326/pse.43.1.3>.

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