THE PROBLEMS OF ACCOUNTING IN A PUBLIC INSTITUTION: THE CASE OF SLOVENIA

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Abstract

In the article the author determines that, due to changes during the privatisation process, the Slovenian framework for public institution accounting is unable to assure the relevant presentation of costs, benefits and effects. She therefore proposes certain changes based on solutions applied in the private sector accounting practices. Her conclusions and recommendations, however, are based on a need for a true and fair measurement of a public institution's results. The recommended way to achieve this goal is the proper application of solutions included in the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

Key words: public institution, benefits, costs, effects, Accounting Act, Slovenian Accounting Standards, International Public Sector Accounting Standards, accrual principle

Introduction

The following presentation of accounting in Slovenian public institutions seeks to examine the gradual enforcement of the International Public Sector Accounting Standards (hereinafter: IPSASs) published by the International Federation of Accountants (hereinafter: the IFAC). The critical approach to existing solutions is due to the relatively compli-

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cated legislation that is not in harmony with modern accounting solutions and is unable to ensure a true and fair presentation of the public institutions' assets, liabilities, revenues and expenses. Although the public sector accounting legislation in Slovenia represents a kind of a hybrid of the cash-basis and accrual-basis accounting, such a hybrid is more a burden than an advantage for the public institution as defined below. Specifically, it does not enable a proper determination of costs and benefits with the consequence that the basis of the decision-making process is paralysed. The Accounting Act and its implementing regulations determine the Slovenian Accounting Standards (hereinafter: SASs)[1] as a basis for the accounting treatment of activities in a public institution unless otherwise determined by the Accounting Act. There are, however, some very important differences in substance enacted by the Accounting Act which prevent the proper use of the SASs and, indirectly, also IPSASs, in the case of a public institution. These differences are presented below.

1 The Definition and Legislative Framework of a Slovenian Public Institution

If we want to define Slovenian public institution we have to start with the institution in general. Pursuant to Slovenian legislation (Institutes Act, 2006) an institution is an entity established in the fields of education and training, science, culture, sport, health care, social welfare, childcare, disability insurance, social insurance, and other activities in which earning a profit is not the primary goal. Institutions can be founded in Slovenia by domestic or foreign legal or natural persons. Public institutions are established to provide public services[2] and other services carried out in the same way and under the same conditions. The founder of a public institution may be the Republic of Slovenia or local governments such as communities and municipalities, and other legally authorised entities. Other legal and natural persons can also be the co-founders of a public institution. Since public institutions are part of the public sector, their accounting rules are determined by the Public Finance Act and Accounting Act.

Public institutions in Slovenia are very important public entities, especially in the fields of education, health care and social insurance[3]. Before the enforcement of the first Slovenian Company Act[4] in 1989, the Slovenian accounting legislation was based on the Law on Associated Labour[5] (1976). The Bookkeeping Act[6] (1976), accepted on its basis, was quite progressive and treated all legal entities on the equal basis. The enforcement of the Companies Act[7] led to a new accounting legislation. But the new Accounting Act[8],

[1] The Slovenian Accounting Standards are harmonised with the International Financial Reporting Standards.

[2] Under Article 22 of the Institutes Act public services are determined by law or by the ordinance of a community or town.

[3] At the end of March 2007, 1.490 entities were organised as public institutions, mostly in the fields of education (830), health care and social insurance (254), and other public, collective and personal services (238) (Zbirni podatki, 2007).

[4] In Slovenian: *Zakon o podjetjih*

[5] In Slovenian: *Zakon o združenem delu*

[6] In Slovenian: *Zakon o knjigovodstvu*

[7] In Slovenian *Zakon o gospodarskih družbah*

[8] In Slovenian: *Zakon o računovodstvu*

taking into account also the provisions of the Council Directive 78/660/EEC[9], substituted the Bookkeeping Act only as concerned business entities, regardless of whether they were in social, co-operative, mixed or private ownership. Entities performing non-business activities, were not covered by this act and had their own accounting legislation. With the beginning of the privatisation process in 1993, the basic accounting rules for business entities (including government business entities) were transferred to the SASs, also taking into account the International Accounting Standards.[10]

On the other hand, the Accounting Act began to cover the public sector accounting rules. Although different solutions were inevitable for some parts of this sector, there were other parts of it, including the above described public institutions, for which material deviations from the SASs in special fields were inappropriate. With the establishment of private entities in the fields which used to be covered solely by the public institutions, the problem has become more obvious, since it is not possible to make a reliable comparison between the results of businesses in different sectors (private and public). Therefore the article stimulates a discussion about the enforcement of IPSASs[11] for Slovenian public institutions as a good starting point for introducing changes in the perception of the proper use of taxpayers' money, either directly or through the appropriate Slovenian Public Sector Accounting Standards.

It has to be stressed that the article deals exclusively with public institutions and not with other forms of legal entities in the public sector, such as agencies, public funds or budgets. It tries to prove that public institutions should follow similar accounting rules as private sector entities, in order to be able to compare their performances with those of competitive private sector entities.

The current legislative framework for public institutions involves the following Slovenian regulations:

- The Accounting Act (issued in 1999 and renewed in 2002 and 2006) and its implementing regulations:
- Rules on analysing and measuring revenues and expenses of public law entities [12] (hereinafter: Rules on Analysing and Measuring);
- Rules on the methods and terms of harmonising receivables and liabilities under Article 37 of the Accounting Act[13] (hereinafter: Rules on Harmonising);
- Rules on the methods and writing-off rates of intangible and tangible fixed assets[14] (hereinafter: Rules on Writing-off Rates);

[9] Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies.

[10] A detailed analysis of the Slovenian accounting history is given in Turk, 2005-2006.

[11] Accrual IPSASs are in fact International Financial reporting Standards adapted to the public sector where appropriate.

[12] In Slovenian: *Pravilnik o razčlenjevanju in merjenju prihodkov in odhodkov pravnih oseb javnega prava*

[13] In Slovenian: *Pravilnik o načinu in rokih usklajevanja terjatev in obveznosti po 37. členu Zakona o računovodstvu*

[14] In Slovenian: *Pravilnik o načinu in stopnjah odpisa neopredmetenih sredstev in opredmetenih osnovnih sredstev*

- Rules on the preparation of annual reports for the budget, spending agencies of the budget and other public law legal entities[15] (hereinafter: Rules on the Preparation of Annual Reports);
- Rules on the uniform chart of accounts for the budget, budget users and other public law entities[16] (hereinafter: Rules on the Uniform Chart of Accounts);
- The Institutes Act (issued in 1991 and renewed in 1992, 1993, 1994, 1996 2000 and 2006);
- The Public Finance Act (issued in 1999 and renewed in 2000, 2001, 2002, and 2007); and
- The Slovenian Accounting Standards – SASs[17] (issued in 1993 and renewed in 2001 and 2005).

The Accounting Act regulates the bookkeeping and compilation of annual reports for the Budget and Budget users, as well as for those legal entities under public law and legal entities under private law[18] which do not keep their books of accounts pursuant to the Companies Act, Public Services Act[19] and Associations Act[20].

The Institutes Act regulates the statutory area of the institutions as defined above.

The Public Finance Act regulates the composition, preparation and implementation of the Budget of the Republic of Slovenia and the budgets of local self-government units, the management of state assets and local government assets, the central and local governments' debts, central and local governments' guarantees, debt management, accounting and public finance internal control and budgetary inspection. The provisions of this Act regarding local government budget users also apply to the subdivisions of local governments that are legal entities.

The SASs which have been endorsed as one of the two[21] applicable financial reporting frameworks under the Slovenian Companies Act, are allowed to be used for the accounting treatment of activities in a public institution only if there are no relevant provisions in the Accounting Act.

Bookkeeping and financial reporting in a public institution is regulated by the Accounting Act. Within the scope of this Act all the rules mentioned above must be taken into account.

[15] In Slovenian: *Pravilnik o sestavljanju letnih poročil za proračun, proračunske uporabnike in druge osebe javnega prava*

[16] In Slovenian: *Pravilnik o enotnem kontnem načrtu za proračun, proračunske uporabnike in druge osebe javnega prava*

[17] The SASs are in all material respects in line with the International Financial Reporting Standards.

[18] It is worth mentioning that legal entities under private law, covered by the Accounting Act, do not comprise profit-making government business enterprises.

[19] In Slovenian: *Zakon o gospodarskih javnih službah*

[20] In Slovenian: *Zakon o zadrugah*

[21] International Financial reporting Standards (hereinafter: IFRS) are the other applicable financial reporting framework for Slovenian commercial companies.

2 Financial Reporting Framework

The financial reporting framework for a public institution in Slovenia is determined by the Accounting Act and all the accompanying rules. This financial reporting framework is materially different from the Slovenian Accounting Standards which are harmonised with the International Financial Reporting Standards. The following text presents the most obvious differences (which are not so many but very important)[22].

The financial statements to be prepared by a public institution pursuant to the Accounting Act are the balance sheet and statement of revenues and expenses, both including additional disclosures.

Items in the financial statements are presented in two columns whereby the first column comprises actual data and information relevant to the period, and the second includes the data relevant to an identical previous period.

In line with the Rules on the Preparation of Annual Reports the common schemes of financial statements endorsed in Slovenia for public institutions are presented in Appendixes 1 and 2.

2.1 Balance Sheet

If we compare the balance sheet structure of a public institution presented in Appendix 1 with balance sheet structure recommended by the SASs for a private institution[23], major categories of assets and liabilities are comparable with those under SASs. In spite of that, the presented balance sheet of a public institution does not provide a sufficient distinction of items which are in fact substantially different. This is especially true when we talk about 'assets under management', included in neither the current SASs nor in IPSASs, which is a speciality of the Slovenian Accounting Act needing a special explanation. 'Assets under management' are in fact assets owned by the state, a community or municipality and transferred for use to – in our case – a public institution or any other legal entity in the public sector. The problem is that under Slovenian legislation there is no proper legal basis for such a transfer.

At this point it must be stressed that the Slovenian Public Finance Act (2002, 2007), as the main law in the public finance field, neither deals with 'assets under management' nor provides any legal basis for their recognition. Consequently, 'assets under management' are only dealt with in the public sector accounting rules. Thus, the recognition of these assets should be more the exception than the rule. However, the situation in the private sector is exactly the opposite.

Under the existing SASs (2006)[24] and IPSASs (2007) 'assets under management' are not treated as a special item of assets and are to be included in some other category like

[22] A detailed analysis for all budget users is given in Duhovnik, 2004.

[23] SASs include a special standard *Accounting Treatments in Non-profit Organisations - Legal Persons of Private Law.*

[24] The SASs from 2001 used to include many special provisions connected with 'assets under management'. As there was no existing legal basis for such assets, a special provision was included in the clarifications, determining the substance of the contract to be signed between a public enterprise on the one hand and the government or a municipality on the other. As the treatment of 'assets under management' in the SASs is not in line with the IFRS, special provisions were left out during the renewal of the SASs in 2006.

assets provided under an operating lease and not recognised in the balance sheet, or assets held under a finance lease. The recognition of such assets should take into account the main criteria for asset recognition in the financial statements of an entity requiring the transfer of all substantial risks and rewards incidental to ownership. If all the risks and rewards incidental to ownership are not substantially transferred the assets should not be recognised in the financial statements, even if they are 'assets under management'.

Besides the mentioned anomaly, the item 'assets under management' is presented in a public institution's balance sheet together with other long-term assets which means that it is impossible to determine which part of the item in the financial statements represents 'assets under management'. If we go into detail even 'assets under management' per se are not determined clearly enough. The Rules on the Preparation of Annual Reports stipulate that the *Overview of the state and changes in long-term intangible assets and tangible fixed assets* as a mandatory disclosure regarding the balance sheet should present all 'assets under management' as well as grants received in the form of assets or other assets donated within the group *Long-term intangible assets and assets under management*. Since donated assets are owned by the public institutions while 'assets under management' are not[25], such a mixture is unacceptable.

Similarly unacceptable is the broad content of 'assets under management', including (Rules on the Uniform Chart of Accounts, 2002-2006):

- long-term intangible assets;
- tangible fixed assets;
- cash and cash equivalents derived from the depreciation of fixed and intangible 'assets under management';
- long-term investments;
- surpluses of revenues over expenses (accumulated surpluses); and
- surpluses of expenses over revenues (accumulated deficits).

To serve a public institution in a special way, 'assets under management' should only contain tangible fixed assets (or maybe in some cases also intangibles), including cash and cash equivalents derived from the depreciation of tangible fixed assets (and intangibles) 'under management'. For all other forms of assets available to the public institution another appropriate legal basis should be found.

Therefore 'assets under management' should be stated as a separate balance sheet item comprising only tangible fixed assets, intangibles and corresponding cash, as long as their presentation is needed due to the lack of an appropriate accounting solution.

2.2 Statement of Revenues and Expenses

The prescribed standard form of the statement of revenues and expenses for a public institution is presented in Appendix 2. It is comparable with the statement of revenues and expenses for non-profit organisations in the SASs.

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[25] 'Assets under management' require permanent adjustments between long-term receivables of the owner and long-term liabilities of the user, as quoted in the Rules of the Uniform Chart of Accounts (2002-2006): 'Receivables from assets placed under management should be adjusted with the liabilities for tangible assets, long-term intangible assets and investments received under management and recognised in the manager's book of accounts.'

In contrast to this, the Accounting Act and its implementing regulations require disclosures other than those required by the SASs, namely:

- Statement of revenues and expenses by type of activity;
- Cash-basis statement of revenues and expenses;
- Statement of financial receivables and investments; and
- Statement of financing.

The statement of revenues and expenses by type of activity, as presented in Appendix 2, has exactly the same structure as the statement of revenues and expenses. The difference is that the items in the financial statement only comprise the actual data and information relevant to the period in columns where the number of columns equals the types of activities performed by the public institution. For those costs or expenses not directly attributable to a certain type of activity appropriate criteria are to be determined by the ministry in charge. Unless decided otherwise, the proportion of revenues earned by each activity is to be used.

In its substance, the enacted cash-basis statement of revenues end expenses is a cash-flow statement in the form presented in Appendix 2.

Pursuant to the Rules on the Preparation of Annual Reports, the statement of financial receivables and investments is a continuation of the cash-basis statement of revenues and expenses. The statement of financing is also a continuation of the previous two statements.

Together with the statement of financial receivables and investments and the statement of financing, the cash-basis statement of revenues and expenses comprises (from the professional point of view) the cash-flow statement. The presentation of cash flows is determined in Article 3 of the Rules on the Preparation of Annual Reports, as follows:

»Revenues and expenses are recognised on a cash-basis. According to this, a revenue or expense is recognised when the following two conditions are met:

- a business event resulting in the recognition of the revenue or expense has occurred; and
- the cash or its equivalent has been received or paid.

The conditions from the second line of the previous paragraph are also considered as fulfilled if receivables or liabilities relating to the revenues or expenses have been settled in another way (through a set-off or compensation and a non-cash payment) without the actual cash flow.

Irrespective of the provisions from the first line of the first paragraph of this Article, the sum of advances received or paid in relation to the revenues or expenses is recognised as revenues or expenses on receipt or payment.

From the time of occurrence of the underlying business event till the fulfilment of the conditions for their recognition referred to in the first paragraph of this Article, the revenues and expenses are stated as special items of deferred revenues and accrued expenses respectively.«

The definition of revenues and expenses in the Article quoted is not in line with the SASs or IPSASs. Such ‘revenues’ and ‘expenses’ are in fact cash inflows and outflows and should be designated as such. This would substantially improve the understanding of public institutions' financial statements. The existing inconsistency is particularly obvious in the case of the statement of financial receivables and investments which presents neither receivables nor investments but cash flows from the repayment of loans and equity transactions.

3 Accounting Problems in a Public Institution

The question to be answered in connection with the financial statements criticised above is how these statements could be improved to help determine the costs and evaluate of results against the defined benefits to be assured by a public institution. At first sight, the prescribed financial statements have a good chance of reflecting the public institution's activities as they comprise an overview of the business from the accrual as well as the cash flow points of view. The problems arise when we come to the contents of the items. Although the Accounting Act and its implementing regulations determine[26] the SASs as a basis for the accounting treatment of activities in a public institution unless otherwise determined by this Act, there are some important differences that prevent the proper application of the SASs to public institutions. The most important deviations are presented below.

After the renewal of the SASs, the biggest problem of accounting in a public institution has been the presentation of 'assets under management', only dealt with in the Accounting Act and its implementing regulations. 'Assets under management' are mentioned neither in the current Public Finance Act (2007) nor in the Public Finance Act (2002) valid until 3 September 2007. On the other hand, the Public Finance Act emphasises that, in the public interest, the state or a community is allowed to organise the state or community property in the legal form of a public institution, public economic institution, public enterprise, public fund or public agency. Such legal foundations provide no basis for recognising special 'assets under management', which means that state or community property could be recognised within the legal framework for the entities mentioned above, on the basis of the legal form of their transfer.

The Accounting Act and its implementing regulations treat depreciation and amortisation costs as a kind of residuum of cost items without a proper legal or contractual basis. Therefore, the SAS 35, dealing with accounting treatments in public enterprises, was amended in 2001 with a provision stating that public enterprises and the state or a community are obliged to stipulate »their relations in a contract or another legal document. It defines the scope and type of tangible fixed assets under management, the amount at which the tangible fixed assets placed under management were stated, useful life of these assets, model of measurement after recognition, ways and means of using amount of depreciation included in the price of a public good, the price structure of a public good, the method of covering maintenance costs relating to the tangible fixed assets under management, the criteria for sharing the profit or loss of the public enterprise among public services and com-

[26] Article 4 of the Rules on Analysing and Measuring determines: »Assets and liabilities of entities under public law are recognised, measured and valuated in accordance with the Accounting Act and its implementing regulations. Everything not specifically determined by that Act and regulations is regulated by the SASs. «

mercial activities, the way of reconciling mutual liabilities and receivables arising from tangible fixed assets under management, as well as other matters significant for mutual relationships in the asset management and the public enterprise's operations.«

Although the SAS 35 refers to economic public services, similarities may be found in the field of other public services[27] where the residual nature of depreciation is reflected in specific provisions, for example:

If the amount of assets received from the state or a community to cover depreciation costs, or the amount to cover depreciation costs included in the value of goods or services sold in the accounting period, exceeds the depreciation costs of assets in the same accounting period, the difference is treated as deferred revenue (Article 61 of the Rules on Analysing and Measuring).

In the absence of other related provisions it is unclear why the excess amount from the financier represents exactly the one intended to cover depreciation costs. The excess amount could normally be recognised as a surplus of revenues showing that the public institution' operations have been successful (compared with the standard) or that the financial sources were inappropriate due to bad planning. The surplus revenues can normally be used to cover the costs of the subsequent period.

The defined users of the uniform chart of accounts cover depreciation and amortisation costs by deducting them from the corresponding liabilities if depreciation costs are not included in the price calculation of goods or services or if depreciation costs are not covered by public sources of finance (Article 10 of the Rules on Writing-off Rates).

For the defined users of the uniform chart of accounts the depreciation calculated on the part of the depreciable amount (which equals the difference between the amount representing the revaluated costs due to strengthening[28] and the cost before revaluation) is not treated as depreciation cost but is covered directly against the corresponding liability (Article 11 of the Rules on Writing-off Rates).

In addition to the inappropriate treatment of depreciation costs, these two provisions result in an incomplete recognition of depreciation costs in the statement of revenues and expenses, which consequently means that the recognised amount of surplus revenues or expenses is incorrect and that the public institution's costs are incomparable with similar costs, for example, the costs borne by commercial institutions performing the same activity on a concessional basis. In this way, comparative criteria for efficiency assessment are lost. Such a loss is further emphasised by the provisions of the Rules on the Preparation of Annual Reports (Article 23) stating that the criteria for costs or expenses not directly attributable to a certain type of activity are to be determined by the responsible ministry. Unless determined otherwise, the proportion of revenues earned by each activity is to be

[27] Some implementing regulations, like the Rules on Harmonising, also refer to the similarity in the following way (Article 7 of the Rules on Harmonising): 'The harmonisation of receivables from assets under management, recorded in the books of direct state or community budget users, with liabilities for assets under management, recorded in the books of indirect state or community budget users or in the books of public enterprises, is done on the basis of the data submitted by the users of the assets divided into subgroups, or on the basis of the sub-balance of assets under management as determined by SAS 35.44 for public enterprises.'

[28] Pursuant to the SASs (2001), strengthening is an increase in the depreciable amount due to a subsequent revaluation.

used. These criteria involve the presumption that an activity generating higher revenues automatically causes proportionally higher expenses, which makes the actual costs of a particular activity unclear.

The Accounting Act and its implementing regulations include some other provisions that are also not in line with the SASs. They are as follows:

For the budget, spending agencies of the budget and other legal entities under public law the rates and the manner of regular write-off are determined by the minister competent for finance (Article 42 of the Accounting Act).

The rates based on this provision and prescribed by the Rules on Writing-off Rates are standard and do not necessarily reflect the expected useful life of assets. Therefore, it would be reasonable to oblige a public institution to make a realistic assessment of the useful life of its assets.

Real assets leased out are treated like tangible fixed assets (Article 6 of the Rules on Writing-off Rates).

Such a provision prevents the proper recognition of a financial lease.

Besides, it has to be stressed that the cash-basis statement of revenues and expenses is in fact a cash-flow statement with quite an unsystematic division of cash flows into three parts. The first part (*Cash-basis statement of revenues and expenses*) comprises cash flows from operating activities, investment activities and financing activities. The second part (*Statement of financial receivables and investments*) covers cash flows from investment activities, and the third part (Statement of financing) encompasses cash flows from financing activities.

The cash flows presented should be systematically organised in three groups (cash flows from operating, investment and financing activities). That would be an important contribution to the transparency of these financial statements. At the same time the accounting solutions would move closer to the solutions found in the SASs and IPSASs.

4 Simplified Example

In order to emphasize the importance of the problem of 'assets under management' a simplified example is presented below.

Let us take two entities; one is a public institution subject to the Accounting Act, and the other a private institution obliged to apply the SASs. All the assets of the public institution are 'assets under management' and all the assets of the private institution are its own assets.

The opening balance sheet of a public institution differs from the opening balance sheet of a private institution in that the sources of assets are liabilities for 'assets under management' in the case of a public institution, and funds in the case of a private institution.

Let us suppose that the price of the same public good produced by both institutions is 10 MU and the expenses referring to the accounting period are

14 MU for the private institution:

- depreciation costs for buildings with an expected useful life of 50 accounting periods – 2 MU,

- depreciation costs for equipment with an expected useful life of 12.5 accounting periods – 8 MU,
- labour costs – 4 MU; and

19 MU for the public institution:

- depreciation costs for buildings – 3 MU (the prescribed writing-off rate is 3 % per accounting period),
- depreciation costs for equipment – 12 MU (the prescribed writing-off rate is 12 % per accounting period),
- labour costs – 4 MU.

Table 1 The opening balance sheet of a public institution

	Item	MU[a]
1	real estate	100
2	real estate allowance	(0)[b]
3	equipment	100
4	equipment allowance	(0)
5	total assets	200
6	liabilities/funds	200
7	total liabilities	200

[a] *MU means monetary units.*

[b] *The brackets indicate negative numbers.*

Source: authors' calculations

Assuming that the invoices issued have been settled immediately and the received money used for labour compensations, the assets and liabilities at the end of the accounting period are as follows:

Table 2 The closing balance sheet of a private institution

	Item	MU
1	real estate	100
2	real estate allowance	(2)
3	equipment	100
4	equipment allowance	(8)
5	cash and cash equivalents	6
6	total assets	196
7	funds	200
8	deficit (surplus of expenses over revenues)	(4)
9	total liabilities	196

Source: authors' calculations

Table 3 The closing balance sheet of a public institution

	Item	MU
1	real estate	100
2	real estate allowance	(3)
3	equipment	100
4	equipment allowance	(12)
5	cash and cash equivalents	6
6	total assets	191
7	liabilities for 'assets under management'	191
8	surplus/deficit	0
9	total liabilities	191

Source: authors' calculations

In the statement of revenues and expenses, the private institution declares a deficit of 4 MU, although its expenses are lower than those of the public institution due to lower depreciation costs (by 5 MU). The public institution subject to the Accounting Act is able to deduct part of depreciation costs (not included in the price) directly from the liabilities for 'assets under management'. In such a situation, which is much more complex in reality, to perform some activities within a public sector would seem more reasonable although in fact it is not. Besides, without the proper knowledge and reviewing of the financial statements, it is never quite clear what the "subsidy" of the liabilities for 'assets under management' actually is.

In numerous cases, when a public institution does not only provide public services but also some commercial services, it is even possible that surplus is recognised in its financial statements, although the same services provided under the same conditions would cause a serious deficit in a comparable private institution.

5 Possible Solutions

While on the one hand the accounting solutions applied in a public institution are materially different from the up-to-date accounting solutions, on the other hand these differences are not unbridgeable and could be relatively easily reconciled. In this respect I recommend a solution that is also useful in the long run for other legal entities under public law. In the following text a possible way to achieve this solution is presented.

At the international level, the IPSASs[29] issued by the International Public Sector Accounting Standards Board (hereinafter: the IPSASB) at the IFAC have been put into force and are growing stronger each day. The IPSASB develops the IPSASs which apply to the accrual-basis accounting, and the IPSASs which apply to the cash-basis accounting. The IPSASs lay down the recognition, measurement, presentation, and disclosure requirements for transactions and events in general purpose financial statements[30] and are designed to

[29] For details see the Handbook, 2007.

[30] Financial statements prepared in accordance with the financial reporting framework that is designed to meet the common information needs of a wide range of users.

apply to general purpose financial statements of all public sector entities, including national governments, regional governments, local governments and their components such as departments, agencies, boards, and commissions. However, the IPSASs do not apply to government business enterprises (hereinafter: GBEs) which normally apply the IFRSs.

In order to facilitate the definition of the status of a public institution I begin with the definition of the GBE provided in the Handbook, 2007. According to this definition, a GBE is an entity that has all of the following characteristics:

a) It is an entity with the power to contract in its own name;

b) It has been assigned the financial and operational authority to carry on a business;

c) It sells goods and services in the normal course of its business to other entities at a profit or full-cost recovery;

d) It is not dependent on permanent government funding to be a going concern (except for the purchases of outputs at arm's length); and

e) It is controlled by a public sector entity.

On the assumption that public institutions are not established to realise a profit and that many of them rely fully or partly on public funding, a public institution is not a GBE. As such, it is a potential user of the IPSASs. This assumption is further confirmed by Pirnat (2007), who stresses that an entity as a whole is to be treated as non-profit, and not its individual activities, which means that Slovenian public institutions belong to non-profit organisations.

If it is true that a public institution is a potential user of the IPSASs then let us take a closer look at what financial statements would be prepared on this basis.

Financial statements prepared for users that do not demand financial information to meet their specific information needs are general-purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term *financial statements* as defined in the IPSASs covers all statements and explanatory materials identified as being part of the general purpose financial statements.

When the accrual-basis accounting underlies the preparation of financial statements, the financial statements will include the statement of the financial position, the statement of financial performance, the cash-flow statement, and the statement of changes in net assets/equity. When the cash-basis accounting underlies the preparation of financial statements, the primary financial statement is the statement of cash receipts and disbursements.

In addition to the general-purpose financial statements, an entity may prepare financial statements for other parties (for example, government bodies, the legislator, or parties performing supervisory functions). The information in these special purpose financial statements is tailored to meet specific information needs of special parties. The IPSASB also encourages the use of IPSASs in the preparation of special-purpose financial statements.

Accrual IPSASs are in fact IFRSs[31] adapted to the public sector context where appropriate. As such, they assure (also compared with Slovenian accounting solutions for the public sector):

[31] The IFRSs are issued by the International Accounting Standards Board.

- a substantial improvement in the decision-making information basis for public sector's assets and liabilities;
- greater transparency of accounting information; and consequently
- greater accountability for decisions taken.

Let us now examine the main differences between the IPSASs and the IFRSs.

- With regard to the public sector, in certain instances the terminology used in the IPSASs differs from that used in the IFRSs. The best examples are the terms: *entity* (in the IFRSs *enterprise*), *revenue* (in the IFRSs *income*), *statement of financial performance* (in the IFRSs *income statement*), *statement of financial position* (in the IFRSs *balance sheet*) and *net assets/equity* (in the IFRSs *equity*).
- Some IPSASs contain a transitional provision allowing derogations from the IPSAS rules in the transitional period.
- The IPSASs contain a different set of definitions of technical terms typical of the public sector.
- Compared with the IFRSs, additional commentaries and explanations have been included in the IPSASs to clarify the applicability of the standards to accounting in public sector entities.
- Certain solutions have been adapted to the public sector needs.

Taking into account that the SASs are in practice a simplified version of the IFRSs, we can use the solutions from the IPSASs in the following two ways:

- following the example of the IFRSs' adaptation to the public sector needs we could adapt the SASs so as to make them applicable to the Slovenian public sector (a preferable solution); or
- we could use the relatively extensive IPSASs directly.

Before taking a final decision we should consider the costs and benefits connected with each possible solution. To make the decision easier, we should be acquainted with the main advantages of the accrual-basis accounting. These are:

• The accrual-basis accounting facilitates better planning, financial management, and decision-making in the government and ensures a robust and accepted way of measuring the cost-effectiveness and efficiency of public policies. Further, it allows for accurate comparisons of financial statements between public sector and private sector organisations, which is one of the main objectives of financial reporting. This is especially important when concessions to perform public services are granted to the private sector.

• Cash accounting makes little or no reference to the liabilities that an entity will be required to meet in the future, nor does it recognise the benefits that will be obtained from purchased assets over a period of time. Financial statements prepared on a cash basis therefore provide limited usable information to financial managers and decision-makers.

An analysis shows (FEE, 2007) that the move to accrual-basis accounting does involve considerable on-going costs and risks, irrespective of the benefits expected. According to the Swiss experience (Duhovnik, 2006), the biggest problem connected with introducing the IPSASs is the consolidation of entities in the public sector. The data suggest that a more common approach to implementing the accrual-basis accounting would be to first make the transition at lower levels of the public sector. Many local and regional public bodies apply some form of the accrual principle, even if the national government still keeps its accounts on a cash basis[32]. In Slovenia, a public institution is a good example of a low level public entity where it would be worth starting.

To conclude this chapter I would like to mention those European countries (IFAC, 2006a) which have adopted, or are in the process of adopting, the accrual-based IPSASs (in alphabetical order):

- The Albanian government plans to adopt the IPSASs with the support of the Italian government, United Nations Development Programme, and World Bank.
- The French government is changing over to accrual-based accounting. Applicable standards in the process of development are based on the IFRSs, IPSASs, and the French accounting rules.
- Hungary, Latvia and Lithuania are taking part in an EU twinning project for the accounting and other reforms which include the adoption of the IPSASs.
- The Dutch government is piloting the adoption of the IPSASs with amendments where deemed necessary.
- The Norwegian government is piloting a changeover to the full accruals principle. Norway applies the IPSASs where there are no applicable Norwegian private sector accounting standards.
- Slovakia is planning to adopt the IPSASs.
- Switzerland has already adopted the IPSASs. For the federal government's financial reporting the standards are effective from 2007.

The 17th World Congress of Accountants in Istanbul (13-16 November 2006) also dealt with the role of the IPSASs in the public sector (Duhovnik, 2006). It was stressed that the use of appropriate accounting standards in the public sector enables governments to manage by numbers and not by instinct.

6 Conclusion

In view of the circumstances and solutions presented here, public institutions could be a place to start introducing the IPSASs in Slovenia. The IPSASs could be introduced in public institutions in a relatively easy way as the existing solutions are very close to them. However, Slovenia should first decide about how to include the IPSASs in its national legal framework.

[32] The reflections of 80% of respondents (20 EU countries).

Appendix 1

Balance Sheet of a Slovenian Public Institution

Assets

A Long-term assets and assets under management

Long-term intangible assets
Long-term intangible assets allowance
Real estate
Real-estate allowance
Equipment and other tangible fixed assets
Equipment and other tangible fixed assets allowance
Long-term capital investments
Long-term loans and deposits
Long-term operating receivables

B Short-term assets, excluding inventories, deferred expenses and accrued revenues

Cash in hand and cash equivalents
Bank and other financial institutions balance
Short-term accounts receivable
Advance payments and collateral
Short-term receivables from uniform chart of accounts' users[33]
Short-term investments
Short-term receivables from financing
Other short-term receivables
Outstanding expenses
Deferred expenses and accrued revenues

C Inventories

Costs of material statement of account
Materials
Small tools and package
Work-in-progress and services
Products
Costs of goods statement of account
Goods
Other inventories

Off-balance-sheet items

[33] Users of the uniform chart of accounts are the budget, spending agencies of the budget and other legal entities under public law obliged to apply the uniform chart of accounts prescribed by the Minister of Finance.

Liabilities

D Short-term liabilities, accrued expenses and deferred revenues

Short-term liabilities for advance payments and collateral
Short-term liabilities to employees
Accounts payable
Other short-term operating liabilities
Short-term liabilities to uniform chart of accounts' users
Short-term liabilities to financiers
Short-term financial liabilities
Outstanding revenues
Accrued expenses and deferred revenues

E Sources of funds and long-term liabilities

General funds
Reserve funds
Long-term deferred revenues
Long-term provisions
Long-term financial liabilities
Other long-term liabilities
Liabilities for long-term intangible assets and tangible fixed assets
Liabilities for long-term investments
Surpluses of revenues over expenses (Accumulated surpluses)
Surpluses of expenses over revenues (Accumulated deficits)

Off-balance-sheet items

Mandatory disclosures regarding the balance sheet are:

overview of the state and changes in long-term intangible assets and tangible fixed assets;
overview of the state and changes in long-term capital investments and loans; and
other disclosures determined by the Rules on the Preparation of Annual Reports.

Appendix 2

Statement of Revenues and Expenses of a Slovenian Public Institution Including its Mandatory Disclosures

Statement of Revenues and Expenses

A) Operating revenues

Sales of products and services
Increase in inventories of goods and work-in-progress
Decrease in inventories of goods and work-in-progress
Sales of goods and materials

B) Financial revenues

C) Extraordinary revenues

D) Operating revenues from revaluation

Sales of tangible fixed assets
Other operating revenues from revaluation

E) Total revenues

F) Cost of goods, materials and services

Cost of materials and goods sold
Costs of materials
Cost of services

G) Labour costs

Salaries, wages and compensations for salaries and wages
Social insurance costs
Other labour costs

H) Depreciation and amortisation costs

I) Provisions

J) Income tax

K) Other costs

L) Financial expenses

M) Extraordinary expenses

N) Operating expenses for revaluation

Expenses for the sale of tangible assets
Other operating expenses for revaluation

O) Total expenses

P) Surplus

Q) Deficit

- Accumulated surplus from previous years intended to cover expenses of the accounting period
- Average number of employees on the basis of working hours in the accounting period
- Number of operating months

Cash Basis Statement of Revenues and Expenses

I Total revenues

1 Revenues from the performance of a public service

A) Revenues from public funds

a) Funds received from the national budget

Funds received from the national budget for current consumption
Funds received from the national budget for investments

b) Funds received from the municipal budgets

Funds received from municipal budgets for current consumption
Funds received from municipal budgets for investments

c) Resources received from social insurance funds

Resources received from social insurance funds for current consumption
Resources received from social insurance funds for investments

d) Resources received from public funds and agencies

Resources received from public funds for current consumption
Resources received from public funds for investments
Resources received from public agencies for current consumption
Resources received from public agencies for investments

e) Funds received from budgets on the basis of foreign grants

f) Funds received from the national budget from the European Union budget sources

B) Other revenues from the performance of a public service

Sales of products and services pertaining to the performance of a public service
Interest received
Profit-sharing and dividends of public enterprises, public funds, public financial institutions, other enterprises and other financial institutions
Other current revenues from the performance of a public service
Capital gains
Domestic grants
Foreign grants
Grants for addressing the consequences of natural disasters
Other funds received from the European Union budget
Funds received from other European institutions

2 Commercial sales of goods and services

Commercial sales of goods and services

Interest received
Rents and other capital revenues
Profit-sharing and dividends of public enterprises, public funds, public financial institutions, other enterprises and other financial institutions
Other current revenues not resulting from the performance of a public service

II Total expenses

1 Expenses for the performance of public service

A) Salaries, wages and other disbursements to employees

Salaries, wages and bonuses
Pay for annual leave
Reimbursements and compensations
Productivity bonuses
Bonuses for overtime work
Salaries and wages for contract work of non-residents
Other disbursements to employees

B) Social benefit contributions of employers

Pension and disability insurance contribution
Health insurance contribution
Employment contribution
Parental compensation
Premiums for additional collective pension insurance

C) Disbursements for goods and services for the performance of a public service

Office and universal materials and services
Special materials and services
Energy, water, communal services and communications
Transport costs and services
Disbursements for business trips
Current maintenance
Business rents
Penalties and indemnities
Tax on wages and salaries paid
Other operating expenses

D) Domestic interest payments

E) Foreign interest payments

F) Subsidies

G) Transfers to individuals and households

H) Transfers to non-profit organisations and institutions

I) Other current domestic transfers

J) Investment expenses

Costs of buildings and premises
Costs of vehicles
Costs of equipment
Costs of other tangible assets
Costs of assets under construction, reconstruction and adaptation
Investment maintenance and renewals
Costs of land and natural wealth
Costs of intangibles
Feasibility studies, project documentation, inspection, investment engineering
Costs of commodity and intervention reserves

2 Expenses for the commercial sale of goods and services

A) Salaries, wages and other disbursements to employees

B) Social benefit contributions of employers

C) Costs of goods and services

III Surplus of revenues over expenses

Surplus of expenses over revenues

Statement of Financial Receivables and Investments

IV Receipts from loan repayments

1 Loan repayments

Repayments of loans given to individuals
Repayments of loans given to public funds
Repayments of loans given to public enterprises and companies owned by the state or communities
Repayments of loans given to financial institutions
Repayments of loans given to private firms
Repayments of loans given to communities
Repayments of foreign loans
Repayments of loans given to the national budget
Repayments of loans given to public agencies
Repayments of guarantees paid

2 Sale of interests in equity

V Disbursements for loans

1 Loans

Loans to individuals
Loans to public funds

Loans to public enterprises and companies owned by the state or communities
Loans to financial institutions
Loans to private firms
Loans to communities
Loans to foreign countries
Loans to the national budget
Loans to public agencies
Payments of guarantees falling due

2 Increase in interests in equity and investments

VI Receipts minus disbursements of loans (Disbursements minus receipts of loans)

Statement of Financing

VII Debts

1 Domestic debt

Loans received from banks
Loans received from other financial institutions
Loans received from the national budget
Loans received from the budgets of local communities
Loans received from social insurance funds
Loans received from other social funds
Loans received from other domestic creditors

2 Foreign debt

VIII Debt repayments

1 Domestic debt repayments

Repayments of loans to commercial banks
Repayments of loans to other financial institutions
Repayments of loans to the national budget
Repayments of loans to the budgets of local communities
Repayments of loans to social insurance funds
Repayments of loans to other public funds
Repayments of loans to other domestic creditors

2 Foreign debt repayments

Repayments of debt to international financial institutions
Repayments of debt to foreign governments
Repayments of debt to foreign banks and financial institutions
Repayments of debt to foreign creditors
Repayments of the principal of securities issued in foreign markets

IX Net indebtedness (Net repayments of debt)

X The increase in assets on accounts [(surplus of revenues over expenses + receipts minus disbursements for loans + net indebtedness) - (surplus of expenses over revenues + disbursements minus receipts from loans + net repayments of debt)]

or

The decrease in assets on accounts [(surplus of expenses over revenues + disbursements minus receipts from loans + net repayments of debt) - (surplus of revenues over expenses + receipts minus disbursements for loans + net indebtedness)]

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