

TOWARDS EFFICIENT PUBLIC SECTOR ASSET MANAGEMENT*

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Abstract

Governments are accountable for providing quality public services to their citizens at the most favourable terms. They are, among other issues, responsible for managing a diversified public asset portfolio.

This paper examines one of the critical financial challenges in Croatia: managing public sector assets efficiently. It attempts to facilitate better understanding of public asset management as an integral part of public sector reforms. The lack of reliable information on public assets in place hinders determination of the assets' value, budgeting for asset management activities and evaluating public asset portfolio performance. As a result, assets are managed on an ad-hoc, often reactive basis. Starting from the concept that public authorities have to be fully accountable to the public, we propose the preconditions necessary for commencing proper public asset management practice in Croatia. Our model might help other countries that are also faced with public asset management inefficiency.

Keywords: public sector assets, centralised asset registry, accrual financial reporting, professional asset management, Croatia

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1 Introduction

Since the 1980s, many developed and developing countries have been embarking on public sector management reforms. The main reasons for commencing public sector reforms were public sector inefficiency and ineffectiveness (ECA, 2003). Governments have been constantly under pressure to improve public services quality while containing costs and enhancing public accountability at the same time (Barret, 2004).

- Several countries, such as New Zealand, Australia, the UK, undertook significant public sector changes to break from the traditional bureaucratic model of public administration (Hood, 1991). Governments have started to:
- constrain public spending,
- sell off public assets¹,
- outsource many services that were previously provided exclusively by the public sector to private companies,
- develop public asset performance measurement, output and outcome-based budgeting and business-type accounting (Guthrie et al., 1999).

Overall, those reforms, widely recognised under the concepts *New Public Management* (NPM) and *New Public Financial Management* (NPFM), were directed at improving efficiency, effectiveness and accountability in the public sector. Encouraging efficient public sector management has become one of the prevailing issues in international literature and public sector practice (Klausen, 1997; Wise, 2002).

Public sector accounting is an umbrella term which, depending on the particular country context, refers to various accounting systems used by numerous public sector entities – general (central and local) government-as-a-whole, government accounting units (i.e. departments, agencies, ministries, institutes), and government business enterprises (GBEs) that are referred to as state owned enterprises (SOEs) in this paper. Two broad sets of accounting standards are applicable to public sectors worldwide, depending on the nature of the accounting entity – the International Financial Reporting Standards (IFRSs) and the International Public Sector Accounting Standards (IPSASs). The SOEs, whose establishment and operations are very similar to those of companies in the private sector, are required to apply full accrual accounting methods under the IFRSs, while all other public (mostly non-profit) entities have been encouraged to apply the IPSASs.

General government sector entities have traditionally used cash basis accounting. Since the 1990s governmental accounting has progressed in that certain international bodies, such as the International Federation of Accountants (IFAC), the EU Commission, the International Monetary Fund and the United Nations, have entered discussions over the benefits of changing to accrual accounting. Based on the view that there is a need for high quality global standards to enhance consistent financial reporting, the International Public Sector Accounting Standards Board (IPSASB) launched its *Standards Programme* in 1996, focusing on full accrual accounting but also addressing the needs of constituents reporting on a cash basis. As a result, the IPSASB has so far issued 26 accrual based IPSASs, to be applied to all public sector entities other than government business enterpris-

¹ In this paper the terms public assets and public sector assets are used interchangeably.

es (GBEs). The IPSASB aims for IPSASs to converge with the IFRSs, issued by the International Accounting Standards Board, and to maintain, wherever possible, the accounting method adopted in the IFRSs, while considering public sector specific issues at the same time. This refers to 23 IPSASs based on IFRSs, 3 public sector specific standards and one cash basis standard.

According to Mike Hathorn, IPSASB Chairman as of January 2007 “.....converging IPSASs with IFRSs, where appropriate for the public sector, is one of the key strategic objectives of our standards development program” (IFAC, 2008). The IPSASs, therefore, tend to reflect an array of international trends and views concerning government accounting development. These trends also refer to the harmonisation of accounting and statistics reporting systems which results in transparent, standardised and internationally comparable accounting information that consequently decreases diversification of accounting systems and improves the quality of government reports, especially regarding public expenditure (IPSASB, 2005). Accordingly, accrual based Government Finance Statistics are considered to be a path towards establishing contextual and functional linkage concerning financial and statistics reporting on public spending (GFSM, 2001).

The importance of public sector financial management reform implications on fiscal consumption is well articulated by Ball et al. (1999). Their study refers to encouraging efficient control over public resources and expenses and to strengthening the level of accountability for managing public resources proactively. Tanzi and Prakash (2000) argue that the habit of relating efficiency to public spending, as is generally done, may give inaccurate results when, as is often the case, public institutions use public assets (land, buildings, etc.) without imputing the cost for their use. Accrual financial reporting has been dominant amongst the countries involved in public sector management reforms (Hood, 1995; Christensen, 2002). Lüder and Jones (2003) focus explicitly on governmental accounting reforms in several European countries and the European Commission. They point out that public sector accounting reform consists of introducing accrual accounting to governmental organisations.

In the last three decades international literature has been mostly focused on investigating the efficiency of the public sector in developed countries, mainly in the context of public revenue and expenditure planning and realisation related to either accrual or cash basis financial reporting. The adoption of cash basis accounting in Croatian general government in 1993 was in line with the practice of Continental European countries that mainly emphasized money management, budgetary and payment control (Vašiček et al., 2008). The choice and mandatory aspects of cash basis application was based upon the fact that all information in financial statements should serve primarily as a qualitative basis for budget execution and liquidity control. Planning and control of public expenditure outcomes were by and large neglected. A modified accrual accounting model was introduced in Croatia in 2001 as a gradual transition to full accrual accounting adoption and accrual based IPSASs application in the public sector. Full accrual accounting implementation would therefore represent further adjustment of the Croatian governmental accounting system to the main international accounting system reform trends, because it would enable accounting for all the assets in the public sector. The accounting framework in Croatia was set up as a law-based system and national public sector accounting stand-

ards have not been developed. Despite the non-existence of national public sector accounting standards, the application of IPSASs has not been enacted as obligatory, though the implementation of certain accounting solutions defined by IPSASs has been recommended by Croatian regulations (Vašiček et al., 2008).

This paper attempts to emphasize the importance of public sector asset management reform, to show how the adoption of full accrual accounting might help public asset reporting, control and management processes, and fill the gap in the research on developing countries' public sector reforms by focusing on Croatia. We also argue that, when providing public services governments do not only use taxpayers' money, but also public assets that the State has to manage on behalf of public asset owners, that is the citizens, to preserve the national wealth.

Even though there have been certain number of efforts to implement public asset management in Croatia, it is our understanding that public asset management has not been properly considered as an integral part of public sector reforms. The first precondition for employing public assets for generating public revenues is to determine clearly what types of assets constitute the public asset portfolio and to determine the components of property rights that can be enforced on public assets. It also means that ultimate ownership rights need to be separated from control rights (Grubišić et al., 2008). In Croatia certain public assets were not properly classified, recorded nor valued. The considerable disorder in property rights enforcement combined with the unawareness of the public authorities that public assets belong to the public, has resulted in unfulfilled public expectations regarding better use of public assets. Some public assets have not been used at all, while some assets have often been claimed as being unproductive without questioning the adequacy and real cost-benefit ratio of their usage. Some public assets were sold to cover budgetary gaps, or to gain the sympathies of the electorate for implementation of certain projects. Overall, efficient public asset management has not been the matter of concern for the public authorities.

In this paper we point out the practical matters that need to be resolved in order to initialise more efficient public asset management in Croatia that might increase the efficiency of the entire public sector. Public asset classification and the creation of a public asset registry would enhance recognition and valuation of public assets and encourage professional public asset management development. Making decisions regarding public asset use implies gathering data on all assets, liabilities, revenues and expenses of a governmental unit and of the general government as a whole (Pallot, 1992). Since information is the most important resource in the management process, a comprehensive accounting information system is crucial for public revenue and expenditure planning, performance measurement and asset management control (Likierman, 1994). It assures that there are general ledger records and financial statements on a daily basis. The role of accounting and financial reporting in conducting public sector asset management reform, as part of a wider set of public sector financial management reforms, is therefore inevitable (Bond and Dent, 1998; Barret, 2004; Caridad, 2005).

The paper is structured as follows. The second section illustrates the link between the NPM and public asset management mainstreams. The third section lays out the current asset management regulations and practice in Croatia and elaborates the need for their improvement. The importance of the classification, valuation and proper utilisation of public assets is discussed in the fourth section of the paper. Based on the preconditions for

efficient public asset management elaborated in the fourth section, the fifth part of the paper presents a public asset management model that might be practically applicable in Croatia. The last section concludes and lays out certain issues for discussion and further research.

2 Public asset management objectives

Apart from SOEs, that have always been required to prepare records to conform to accrual-based accounting standards, management and control processes in the public sector have differed from the corresponding processes in the business sector. Unlike the private sector, public sector management practice has been mainly directed towards:

- establishing a legislative, institutional and control framework
- controlling the market formed by national boundaries and running foreign and domestic affairs
- managing the entirety of tax revenues collected and redirecting these revenues to public consumption, public debt repayment and public investments
- preserving the national heritage for future generations and accomplishing strategic goals while protecting national interests
- providing public goods and services and assuring public need fulfilment.

A modern government in a democratic country is representative, meaning that some public officials are engaged in public-decision making for the collective benefit, with clear responsibility and accountability for their actions to the public (Ranson and Stewart, 1989). Even though public asset management is usually not articulated as a direct task of public representatives, it indirectly relates to the pursuit of many government functions, such as public goods and services provision, heritage preservation, strategic goal achievement and the daily operational tasks of public representatives. Since the early 1990s, management and control in governmental organisations have become more similar to management and control in business organisations. Regardless of the manner in which governments have evolved, public sector structures, responsibilities and reporting requirements have been subject to major processes of change. According to Azuma (2002), public sector management reform implies:

- the general government sector acting as a business entity which continuously and efficiently performs its activities
- promoting greater competition and efficient public asset utilisation in public services provision
- applying «performance-based management» that emphasizes managing and controlling outcomes rather than inputs only, and
- introducing accrual accounting and implementing market efficiency and good governance principles in the general government sector.

While private sector management deals with fulfilling the needs of a limited number of individuals, the actions of public management are much wider in scope and have collective consequences (Ranson and Stewart, 1989). The organisation of public administra-

tion and management implies multi-level management teams that encompass institutions at all levels of general government. Due to the existence of many management levels, public administration and management are typically bureaucratic and slow in action. Thus, one of the emphases of public sector reforms is that public sector management should operate according to the prevailing managing principles established in the private sector (Landsberg, 2004). Many NPM reform emphases were developed and implemented first in the private sector and then gradually “transferred” to and implemented in the public sector, such as, for example, the three evaluation styles for the government sector originated from Hopwood’s evaluation styles for the profit sector. The introduction of private sector management techniques in the public sector in Anglo-Saxon countries has led to full adoption of accrual accounting in both reporting and budgeting, shifting the emphasis of the budgetary process away from cash inputs towards outputs and outcomes (Pallo, 1996; Simpkins, 1998; Hepworth, 2002; ABS, 2002). This has further implied the necessity of cost and managerial accounting implementation in the public sector regarding asset and activity valuation. Thus, the reform is comprehended as a step ahead towards standardisation of accounting rules, principles and recommendations.

The improvement of the public sector asset information system is a fundamental part of the NPM approach. The need for public asset recognition and efficient public asset utilisation in many countries, both at central and local authority level, has been mainly driven by the idea that the Government and the public need to have a complete picture of the country’s assets and that the Government is responsible for managing public resources on behalf of all its citizens. Therefore, for rational decision-making and assurance of better control over public sector activities, a promptly updated information database on all public assets is needed. Thorncroft (1965) describes public asset management as “the direction and supervision of an interest in landed property with the aim of securing the optimum return. This return need not always be financial, but may be in terms of social benefit, status, prestige, political power or some other goal or group of goals”. While the individual must accept some responsibility for the ownership of private property, in the public sector, such ownership and associated responsibility have much wider social implications (Dent, 1997).

Many advanced countries have used asset registers as the first step in gaining an insight into the assets that should be included in the records. In our opinion, in small countries there is no need for several decentralised public assets registers that might provoke data redundancy and contribute to unnecessary fixed costs pile-up for data recording and updating. Applying transparency principles in centralised and complete public asset registry maintenance, and in the entire public asset management process, would be a much better solution than having multiple databases on public assets scattered around numerous local government units. However, having a centralised public asset registry would not exclude possible decentralisation of outcomes from placing public assets into use, but prevent ignorance or malpractice in dealing with public assets and misappropriation of public asset outcomes for private benefit. Some public institutions and local authorities have managed and disposed of certain public assets in an irresponsible manner, because there were no centralised or complete records on those public assets and the probability of public scrutiny was very low. Therefore, the transparency principle, also known as good governance, is a crucial precondition for efficient public sector management (Hepworth, 2002;

Caridad, 2005). In that sense, public managers have to employ the best private sector management practices, having in mind the interests of their beneficiaries – the citizens. Apart from natural resources and cultural heritage, there is a great deal of so-called “everyday” public property used for transport, working and living, as well as for the everyday business activities of public institutions in Croatia.

3 Public asset management in Croatia – regulation and practice

Some of the numerous Croatian resources are listed and assigned to certain public asset categories; some exist in books as non-cash generating assets, while the documentation for certain public assets is stuck somewhere between the cadastre and land registries, or it is partly kept by their owners, users or managers. Despite the fact that there have been some attempts to record public assets, a complete and centralised registry of public assets on a state level still does not exist. The incompleteness of records of public assets partly results from the inherited disorder in land registries. The disorder in the records is also a consequence of inconsistent legislation which has allowed rights but has rarely imposed the obligations related to the disposal of specific assets on the various beneficiaries.

After Croatian independence was declared in 1991, the planned economy was changed to a market-driven one, which caused most laws to change. The Government became the nominated owner of many SOEs that were previously “socially owned”.² In order to accelerate the process of market restructuring, a specialised institution – the Croatian Privatisation Fund was established.³ It ran the process of ownership transformation, book value appraisal and privatisation of the SOEs according to the Transformation Act and the Privatisation Act.⁴ The Privatisation Act actually split the prevailing State’s stakes in the SOEs from the stakes that the Croatian Privatisation Fund and some other public institutions acquired through the process of transformation of ownership of SOEs. Once the ownership of SOEs was transformed, the Croatian Privatisation Fund and some other public institutions (the so-called “special government entities”) became the formal owners of SOEs, with the soundly determined aim of fully privatising “their” stakes in SOEs.⁵ The leading role in the privatisation process of SOEs, however, was entrusted to the Croatian Privatisation Fund.

The management board of the Croatian Privatisation Fund was firstly elected by the Croatian Parliament that was also to control its work. Ever since the amendments to the Croatian Privatisation Fund Act in 1996, the Government has nominated the members of the Croatian Privatisation Fund’s management board, while providing reports to the Parliament on an ex-post basis. Apart from governmental attempt to sell the SOEs in order

² The governing law that enabled the ownership change was the Transformation Act (Hrvatski sabor, 1991). In this paper the term Government refers to the central government only, while the term local government is in some parts of the paper replaced with the term local authorities. The central government and local government /authorities form the General government.

³ Croatian Privatisation Fund Act was passed in 1992 (NN 84/92)

⁴ The Privatisation Act was enacted in 1996 (NN 21/1996).

⁵ Even though the shares and stakes in SOEs are dispersed among the Government and various public institutions, for the purposes of this paper we take into account the ultimate ownership rights, which in the case of all public and governmental institutions belong to the State.

to fill the gaps in the balance of payments and enable the SOEs' restructuring and new employment, many existing and newly-formed state-owned budgetary-financed institutions obtained public asset property rights either by special government decrees or by the enactment of new laws.⁶ The acquired property rights enabled the Croatian Privatisation Fund and special government entities to manage and dispose of the "acquired" public assets freely. This was often non-transparent and with no responsibility for the harm done either to the privatised SOEs or to society as a whole.

Separately from the establishment of the Croatian Privatisation Fund, the Central State Administrative Office for State Property Management of the Government of the Republic of Croatia was set up in 1992. Its role was to manage the public real estate portfolio comprised of construction and other land, office buildings, residential property, leisure facilities, transport vehicles, monuments, works of art, furniture and equipment. The management of these public assets refers to public real estate and apartment sales, lease, exchange, bestowal, acquisition, sale of transport vehicles and donations, as well as to settling legal issues for all public assets whose legal status had not been resolved.

Even though the Central State Administrative Office for State Property Management constantly urged the special government entities to deliver the necessary documentation concerning the property that was either in their files or under their management, those attempts were rather unsuccessful. The fear of loss of authority among the staff in certain special government entities was probably the main reason hidden in the background of such a refusal to accept obligations. Still, right from its establishment, the Central State Administrative Office for State Property Management strove to complete the public assets registry and resolve the problematic property rights of undocumented public assets that were neither properly recorded nor valued.

Unlike the Central State Administrative Office for State Property Management, which was established as an exclusively budget-financed institution, the Croatian Privatisation Fund could make up for their expenses from inflows collected by the privatisation process. Despite both institutions being responsible to the Government, the management board of the Croatian Privatisation Fund was allowed to independently make decisions and privatise assets with an estimated value one hundred times greater than the amount allowed to the Central State Administrative Office for State Property Management for public asset sale and acquisition. Due to the tight financial allowances the Central State Administrative Office for State Property Management became merely a property-right sweeping institution that prepared the necessary documentation for public asset disposal decisions made by the Government. At the same time the Croatian Privatisation Fund took over the privilege of public asset management. The Central State Administrative Office for State Property Management played an important role for the Government in preparing legal documentation for utilising public land in industrial zone development, land and real estate donations to local authorities and institutionalisation of servitude rights on public land designated for certain purposes. Despite having an institution formally designed for pub-

⁶ The State-owned budgetary-financed institutions encompass agencies, ministries, public funds and other institutions.

lic asset management – the Central State Administrative Office for State Property Management, the Government kept establishing new institutions to achieve the goals of specific public asset management. As a consequence, the public asset registry was separated from the public asset management process. Moreover, these circumstances became even worse as some real estate was transferred from the Central State Administrative Office for State Property Management to the Croatian Privatisation Fund by a Governmental decree in order to place that asset into commercial use, i.e. to sell it. In 2000 the amendment of the Privatisation Act finally defined the public asset portfolio as shares and stakes of special government entities in SOEs, as well as the shares and stakes of the Republic of Croatia in SOEs. Apart from having the obligation to manage its “own” property, the Croatian Privatisation Fund was the only special government entity that gained the right to manage “the property of other public institutions and State property”, based on either special permission from other public institutions or the Government itself.

Not only was the Croatian Privatisation Fund given the largest power regarding public asset management, but most assets under its management were practically no longer considered public. Even worse, up to the present time neither legislative nor practical accountability regarding public asset management has been established. The legislation and business practice separated the formal property rights from the “true” owners of public assets – the citizens of Croatia. Yet, the privatisation process was declared to be completed by the end of 2007 by the National Programme for the Integration of the Republic of Croatia into the European Union. Still, the process has not yet been terminated. In addition, substantial public assets are “owned” by other special government entities, i.e. various public institutions set up by special government or parliament decrees to fulfil designated tasks.

Up to the present there has been only one attempt to centralise public asset records in Croatia as well as to allow such assets to serve in development. This was through The Draft Croatian Asset Fund Law published in July 2003, which proposed the transformation of the Croatian Privatisation Fund into the “Croatian Asset Fund”. Its aim was to complete the privatisation process and manage the remaining public assets. The Draft Croatian Asset Fund Law defined public assets as the Government’s and the Croatian Privatisation Fund’s stakes in the SOEs and real estate, while lease, sale and “other means of asset disposal” were referred to as the instruments of public asset management. This meant that the Croatian Asset Fund was to operate as a common real estate investment fund, except that the net revenues of the Croatian Asset Fund were to be transferred to the State Budget at year-end. However, the Draft did not solve the issue of the “true” public asset owners. Rather it kept the existing ownership rights of the special government entities unchanged. Apart from including the public assets already determined by the laws governing operational matters of certain special government entities’ in the public asset portfolio, the Draft Law did not explicitly define the composition of the public asset portfolio. It also did not solve the problem of implementing asset valuation techniques in public asset management. The proposed organisational structure and management election process in the Croatian Asset Fund closely resembled the process in the Croatian Privatisation Fund. Nevertheless, if the Draft had been passed, the switch of legislative responsibility

for public asset management from the Government to the Croatian Asset Fund's management board would have been the Draft's main achievement. This would have also helped to unite and centralise the data on the special government entities' stakes in the SOEs and the data on SOEs and real estate in the ownership of the Republic of Croatia. Assuming that most SOEs will indeed be privatised in the near future, it is expected that the operations of the Croatian Privatisation Fund will diminish and that the role of the Fund towards public asset management will be redefined. The next sections of this paper address several issues regarding establishing efficient public asset management, such as: Which public institution is to be responsible for managing the substantial portfolio of the remaining public assets? How will the existing public institutions, that currently appear to play the roles of either supervisors or custodians of certain public assets, be streamlined under the new public assets management model? Which assets are to be included in the manageable public asset portfolio and under what conditions? What is their value? Which assets are to be excluded from the public asset portfolio? How should various types of public assets be appraised in good time and who is going to do it? What instruments of asset management are available and applicable for public assets?

4 Preconditions for modern public asset management in Croatia from an international perspective

Each country has its own public management objectives and public asset management practice. Public asset management policies differ due to cultural and historical heritage, the size of the public asset portfolio, the organisation of general government, the level of democratisation, the perceptions of the public management role and public sector accounting practices. Despite these differences, there are some common preconditions that are considered necessary for conducting public asset management activities efficiently. These are:

- a public asset registry
- public asset classification
- public asset recognition and measurement
- public asset portfolio construction
- institutionalisation and professionalism in public asset management, and
- cost and outcomes measurement.

These preconditions (public asset recognition and measurement, and cost and outcomes measurement in particular) depend on the existence and quality of the regulatory financial reporting framework. Croatia is particularly interesting to study because of the degree of governmental accounting normativism that stems from public finance centralization and the fact that public expenditure is financed through the central Budget. Therefore, the legislative frame regarding governmental accounting development is determined by the Budget (Finance) Act as well as by additional regulations. The fact that the application of IPSASs has not been enacted as obligatory, but the implementation of certain accounting solutions defined by IPSASs has been recommended by Croatian regulations,

assures legislative support to follow IPSASs or to preparation and approval of a national framework of accounting rules for the public sector, based on IPSAS rules.⁷

The above mentioned pre-requisites are described in the order they are mentioned, with reflection on some experiences of developed and developing countries.

4.1 Public asset registry

A public asset registry can either be centralised or decentralised. The level of centralisation depends on the organisational structure of the general government that is closely related to the size of a particular country. Regardless of the degree of centralisation and practical usage of public assets, the public asset registry is supposed to represent an accurate database of all public assets and the related liabilities. New Zealand, Australia, the United Kingdom and France are known for the establishment of fairly complete public asset databases (Tanzi and Prakash, 2000). The public asset registries in Australia and New Zealand were developed in the course of the public sector reform (Bavin, 1999; Tanzi and Prakash, 2000). The UK is also a good example of the development of a public asset register. The National Asset Register that represents a comprehensive list of assets owned by UK Government departments and governmentally sponsored bodies is considered to be an international landmark in transparency and accountability.⁸ The role of the National Asset Register has been to achieve greater transparency and better decision making in managing public resources, manage maintenance and opportunity costs of public assets, make the best use of everything the nation owns, and control of plans to dispose of non-cash generating assets by ensuring that resources are allocated to where they can be used most productively.⁹

Tanzi and Prakash (2000) articulate certain objectives of the Italian government regarding public asset management. The objectives were published in a decree in 1985, and they were to identify each publicly owned real asset, register each asset's location and condition, estimate the value of the assets and ascertain what income they generate, and examine the most productive potential use of these assets.

Despite the age of information technology and worldwide computer use, many public authorities do not have asset registers that would enable them to have a true reflection of the total value of assets owned, or their public asset registries are incomplete. It is there-

⁷ As far as the business sector is concerned, national financial reporting accounting standards in Croatia were developed in 2007 and enacted in 2008, primarily as a support for small and medium entrepreneurs that found it hard to follow the IFRS – International Financial Accounting Standards. Listed companies have been obliged to follow the IFRSs. National financial reporting accounting standards in Croatia are called *Hrvatski standardi financijskog izvještavanja (HSFI)*.

⁸ After the Chartered Institute of Public Finance and Accountancy (CIPFA) identified that “the authorities do not have adequate asset registers” in 1982, the UK Government published the first National Asset Register in 1997. The Register introduction contributed to a long planned move towards a resource Accounting and Budgeting (RAB) system of planning, controlling and reporting on public spending in Government departments. The values adjoined to assets, ensure that the Register is close to a true reflection of the total value of assets owned by the UK. In the interests of openness and accountability, the UK Government has since then published the value of assets listed in the Register on an annual basis. Furthermore, the UK public sector institutions are required to prepare records that conform to the national accounting standards, similar to the IPSASs

⁹ The complete National Asset Register document is available at http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/National_Asset_Register/pss_nar_2_001index.cfm

fore difficult to monitor and control the way public assets are used or misused, especially when the inventory of public assets is substantial, as has usually been the case in former planned economies like Croatia. Due to the lack of an integral asset registry, public assets have been scattered in “databases” around various distinct public institutions and local authorities. These institutions and authorities have been treated as places entitled to revenue from the Budget allotted to them to cover their operational and fixed costs. Most public institutions are often treated as regular cost centres, regardless of the profit they (could) earn from managing public assets. However, the potential profit an asset might earn might provide an incentive for the government to stop being wasteful in its use of publicly held assets. We deem that in order to avoid double or triple records of public assets as well as to avoid the omission of recording some public assets, a centralised registry of all public assets is necessary. As stated by Tanzi and Prakash (2000), a creation of an official cadastre of publicly owned assets would increase public sector efficiency, and could serve the following purposes:

- provide the value of the assets owned by the government that could help rating agencies in determining the credit rating of that government (central and municipal)
- facilitate the calculation of the balance sheet or the net worth of the government
- reduce the possibility that some public assets “disappear”
- permit a government to impute capital charges to public agencies or institutions that use these assets, to force them to use these assets efficiently, and
- become an important building block for the extension of accrual accounting to include the use of capital charges.

Even though the extent to which a public asset registry can contribute to more efficient public asset management can be debated, it is obvious that without a database that includes all financial and other data on public assets, making final decisions on certain public management actions is not possible. An incomplete record of all public assets makes the process of monitoring and controlling asset use rather difficult and enables the use of public assets without prior valuation and without scrutinising public needs. However, achieving the level of accountability, in terms of assuring that government knows what it owns, where it is and what it has been used for is a precondition for public asset recognition and measurement for accounting purposes. Thus, while, to a certain point, a level of accountability for managing public assets can be achieved without any evaluation of the assets and without consolidating the assets financially, making decisions regarding new and different ways of using the assets can not.

4.2 Public assets classification

Asset classification within the public asset registry is crucial to establishing a manageable public asset portfolio. Such a portfolio would be a solid base for implementing the valuation methods necessary for efficient utilisation of public assets. Just as with private sector assets, all public assets can be referred to simply as either tangible or intangible. All public assets need to be accounted for in the central public asset registry, regardless of who has been in charge of them and regardless of what the possibilities and ways

to determine their real value may be. Taking the stance that it is preferable for each country's public asset database to include at least the most important public assets, various asset classifications are possible. The variety of classifications across countries exists because certain countries are in doubt what types of public assets to include in their public asset portfolios and how to value them.

On the basis of the use being made of the assets, they can be classified as vacant, occupied by governmental authorities or serving to provide public services. We find that IPSASs represent a sound base for asset classification and valuation rules. For example, IPSAS 1 Presentation of Financial Statements refers to current and non-current assets as separate classifications on the face of the statement of financial position. The distinction between cash-generating and non-cash-generating assets as the primary objective for holding the assets is referred to in IPSAS 21 Impairment of Non-cash-generating Assets and in IPSAS 26 Impairment of Cash-generating Assets, while IPSAS 17 Property, Plant and Equipment recognises separate asset classes such as land, operational buildings, roads, machinery, electricity transmission networks, motor vehicles, office equipment, furniture and fixtures, etc. IPSAS 19 Provisions, Contingent Liabilities, Contingent Assets requires that certain information about contingent assets is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Taking into account the statement of financial position limitations and the fact that citizens are the "true" and ultimate public assets' owners, this paper recognises the following public asset classes in Croatia: public infrastructure, real estate, financial assets (stakes in SOEs, cash and various securities), heritage assets, natural resources, military assets, and movables. Depending on the asset classification adopted, various public asset valuation models might be applicable. For example, stakes in healthy SOEs are to be valued according to the "going concern" principle, while so-called "specific" public sector assets (heritage assets, natural resources, infrastructure and military assets) need to be valued primarily according to specific features that are applicable for the particular asset in question. Even though Croatian accounting legislation does not explicitly assert that particular assets, such as military assets, heritage assets, infrastructure assets and natural resources, are not to be accounted for, these asset groups are often not identified and hence not recognized in general purpose financial reports. In addition, fixed assets purchases are also not capitalized. Therefore, the existing Croatian governmental financial reporting model, based on modified accrual accounting, mainly only results in financial assets and capital equipment recognition and valuation.

No matter what the origin of financing might be, each public asset has its corresponding liability that has to be taken into account when measuring the benefits from putting an asset into use. The incentive for putting assets into their most productive use would also mean avoiding the increase in liabilities that arises when leaving the asset unused. Several IPSASs address different types of liabilities. For example, IPSAS 1 "Presentation of Financial Statements" states that liabilities should be presented broadly in order of their liquidity or the entity should choose to make the distinctions between current and non-current liabilities as separate classifications on the face of the statement of financial position. In addition, IPSAS 19 "Provisions, Contingent Liabilities, Contingent Assets" re-

quires that certain information about contingent liabilities is disclosed in the notes to the financial statements, while IPSAS 23 “Revenue from Non-Exchange Transactions (Taxes and Transfers)” refers to present obligations arising from non-exchange transactions that meet the definition of a liability.

Overall, apart from managing foreign exchange reserves and domestic currency issuance that are entrusted to the Croatian National Bank, and commodity reserves that are managed by the Commodity Reserves Directorate within the Ministry of the Economy, Labour and Entrepreneurship, all other liabilities that result either from using the asset or that arise when leaving the asset unused need to be assigned to that particular public asset.

4.3 Public assets recognition and measurement

In order to determine its book and economic value, each public asset has to be properly recognised and valued. The most common way for public assets to be recognized and valued is to apply IFRSs to State, Government, and special government entities’ stakes in SOEs, and IPSASs to other public assets, whenever possible. However, different accounting concepts worldwide have built high barriers to implementing common financial reporting valuation techniques in the public sector. Recognising and valuing public assets provides better information about the management of public spending, because it assures better management of resources – assets and liabilities as well as costs. Sometimes, just because the use of assets acquired or inherited in the past does not affect the current budgetary costs, these assets are treated as if their value were zero and remain unrecorded (Tanzi and Prakash, 2000).

As articulated by Likierman (2003), rather than being a simple statement of cash spent and received, resource accounts take broadly the same form as commercial accounts, with a balance sheet, profit and loss statement and information on cash flow, along with some additional information specific to the public sector. Yet, there are tendencies to properly account for the majority of public assets and to assign them a monetary value whenever and wherever possible, so that they do not remain off the balance sheet (Smith, 2007). The paper by Smith refers mostly to valuing specific public sector assets such as: infrastructure assets, military assets, heritage assets and natural resources. Such assets are recognized within the financial reports only if a full accrual accounting basis is implemented. In that way the accrual accounting represents a tool for forming a relevant, complete and qualitative information base and serves as a catalyst for public sector accounting information system reform (Barret, 2004).

In order to achieve better control and enhance accountability throughout the public sector, many countries have either adopted the accrual accounting basis in their public sector reporting and budgeting, complying with most of the IPSASs requirements (New Zealand, U.K., Australia, Canada, Finland, Iceland), or have implemented the accrual accounting basis in public sector financial reporting, while preparing to move to accrual budgeting (Denmark, Switzerland, Sweden). According to Mellor (1996), “the whole of government accrual reports provide a more complete picture of government finances and assist in assessing the financial performance and financial position of a government, the

sustainability of its policies and intergenerational equity issues... Another benefit of accrual reporting is that it focuses policy attention on the whole balance sheet, not just cash flows or debts". Further, "information on assets and liabilities, which accrual accounting provides, is needed to monitor aspects of the ownership interest such as financial viability, return on investment, and maintenance of capital" (Pallot, 2001:384). After all, if all private sector companies keep records of the financial and physical features of the assets they own and use, why would public sector assets be treated differently? When providing goods and services to the public, the government needs to be transparent regarding the way it uses publicly owned resources. In that manner Pallot (1992) examined an assumption that public property is equivalent to private property and that government entities own property in the same sense that private firms or individuals do.

For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets. While it is very difficult to place a meaningful and reliable value on specific public assets (e.g. heritage assets and natural resources) for the balance sheet, and while the process of valuing such assets might be very expensive, the fact that organizations are required to report on how they are caring for specific public assets will ensure that no one could dispute the assets' value to the citizens (Smith, 2007).

As already emphasized, in the Croatian Governmental financial reporting system modified accrual accounting has been implemented as a gradual transition from cash-basis accounting to accrual accounting. Even though modified accrual accounting is considered a sound basis for upgrading the existing Croatian accounting information system, presently it does not enable the recognition of all public assets. The expenditures that refer to fixed assets purchase are not capitalised but rather treated as a one-off expense when obtained. This implies that assets are not depreciated on the basis of their estimated economic life.

The consolidated financial statements of the Government of Croatia refer to the consolidated financial statement of the local budget and the consolidated central government. The consolidated central government encompasses the consolidated financial statements of the ministries, extra - budgetary funds and other central state entities (e.g. departments and agencies). The Treasury of the Ministry of Finance of Croatia is responsible for financial statement consolidation at the state level. The SOEs have their own consolidated or non-consolidated financial statements which are not included in the consolidated financial statement of the Budget of the Republic of Croatia. Although the recognition of "specific" public assets in Croatia is neither required nor forbidden by the accounting legislation, they are often not recognised or valued within General Government or public institutions' financial reports. Two prevailing arguments (Vašiček, 2004:198) to support this assertion are:

- the reserved opinion concerning whether or not to account for the infrastructure and heritage assets in the financial statements, and
- the question of whether a reliable and measurable value allows an asset to be recognised within the financial statements and used in financial statement analysis.

As long as the true reflection of accounts is concerned, it is widely expected that certain unique public sector assets would remain as off-balance sheet (Smith, 2007). Their uniqueness alone would imply that it is impossible to give them a value that is in any way reliable and meaningful. Nevertheless, assigning value to each single public asset could help ensure that appropriate resources are devoted to its maintenance, protection and economic usage, even though this sometimes means valuing the invaluable. It is often forgotten that particular public assets, once recognised, are not supposed to be included in the financial statements of the entity that controls or manages the assets. Still, assets should be part of a single public asset registry. In addition, assets need to be re-valued either annually or when their use is being determined or changed. Such revaluation is necessary to keep the value of public assets comparable with similar assets in private ownership and to ensure their fair valuation from a cost-benefit stance.

Despite conventional accounting measurement and recognition of the technique's limitations regarding specific and unique public assets, the financial records on SOEs in Croatia are by far the most transparent and complete when compared to the financial accounts of certain governmental organisations. This is because SOEs apply the financial reporting standards for the private sector. Given the ultimate goal of the Croatian State Treasury to gradually move the entire public sector financial reporting to full accrual accounting adoption, implementing the accrual accounting basis for the purposes of public asset management would not be an unusual or unreasonable decision. If public sector entities were required to report on the way they manage public assets, it could help ensure transparent, standardised, accountable and long-term public asset management.

Among the wide spectrum of standards and guidance studies issued by the International Public Sector Accounting Standards Board, Study 11-“Government Financial Reporting: Accounting Issues and Practices” aims to assist governments at all levels in identifying issues associated with financial reporting on public sector assets. The Study contains a detailed description of both accrual and cash basis accounting and provides examples of actual financial statements prepared using both bases of accounting. The chosen accounting basis has a major influence on whether certain assets are or are not reported within the financial statements. Even though cash basis accounting might be suitable for public revenue and expenditure administration and control, it cannot be suitable for planning, budgeting, managing and control of public assets and liabilities. If cash basis accounting continues to be applied for public sector asset recognition, the managerial side of public assets will be neglected. Therefore we opt for using accrual-based public asset classification and recognition, as providing the most complete records on public assets and related liabilities, revenues and expenses.

Accrual accounting implementation is considered paramount for managing qualitative and transparent data registry on public assets, which is a precondition for managing, planning and performance measurement of public assets and Governmental and Parliament control over public revenues and expenses. We argue that all public assets, whose values have been ascertained, including the stakes that the state, the government and certain public institutions have in SOEs, which are recorded in the public asset register, should be consolidated by the public institution governing public asset management. Accrual

records on public assets and the consolidation of all public assets in the asset register is the only way to manage and control public asset management activities, and preserve the national wealth.

4.4 Public assets portfolio construction

The leading presumption in portfolio management is that there is no portfolio of anything before determining its composition and this is also the case with public assets portfolio.

Owing to the IFRSs, as well as the IPSASs that are, in most parts, tailored according to the IFRSs, the definition and composition of assets in the statement of the financial position of an entity are clearly determined. Thus, from the financial reporting stance there is no doubt that the main asset classes in the statement of financial position are to be applied in public asset portfolio construction and maintenance.

As a public asset portfolio, due to the current disorder in public asset records, cannot be recorded in the short term, we distinguish between manageable and unmanageable public assets, that is manageable and unmanageable public asset portfolios, depending on whether the assets' features and values have or have not been ascertained. Manageable public assets are ready to be valued according to their alternative usage opportunities, while unmanageable public asset valuation is postponed until legal, primarily property rights' constraints are resolved. A manageable public asset portfolio can also be called an active portfolio, while the unmanageable public asset portfolio consists of incomplete records on public assets that are constantly being supplemented. Unmanageable public assets, upon completion of the records, are transferred to the manageable public asset portfolio.

Besides accounting valuation, which gives a static value estimate, there are problems of time-value-of-money-based valuation, especially when various ways public assets are used are examined. Namely, the privatisation of SOEs, regardless of the existing management problems, is not the only solution available, as has been thought by the Government for a long time, nor are public-private partnerships, which have become rather common in the last two years. In a number of privatisation procedures in Croatia, the time-value of money for SOEs to be sold was never properly considered, as the buyers' investment cost was recovered rather quickly. Moreover, the privatisation process has gone relatively smoothly with prospective enterprises such as banks and telecommunications, but has had huge difficulties with debt-overloaded firms. Many of the latter have been seeking an owner ever since. Equally, the public-private partnership costs and benefits are not adequately estimated, when opting for this instrument for providing better public services. However, as articulated in English and Guthrie (2003:498), both privatisation (sale) – full or partial and public-private partnerships, either in form of concession, lease, partial sale or investment, remain some of the possibilities for use of public assets that need to be considered on an equal footing when evaluating all possible asset usage alternatives.

The feasibility of each use of public assets has to be estimated, statically as well as dynamically for revenue-generating assets and stakes in SOEs. But if every asset has to be valued separately, the question that arises is whether this process will generate higher costs than benefits? Clearly it will not, as long as assets of similar features are classified

into asset pools. Importantly, assets with large-revenue-generating capacity and assets of national importance are to be valued separately.

Although public asset valuation issues are beyond the scope of this paper, basically three valuation approaches are suggested, i.e. asset, income and market approach (Bond and Dent, 1998). The valuation methodology to be adopted depends on whether an asset can be valued according to some market based equivalent or not. Therefore, value of a public asset can be calculated on a replacement cost basis, optimised depreciated replacement cost or on a basis of alternative usage costs (Styles, 2000). As long as a single public asset or asset pool is considered, the judgment on its best alternative usage depends on net present values of assets' comparison from both financial management and social cost-benefit stance. The most common scenarios for alternative use of public assets are presented in Table 1.

Table 1 Alternative use of public asset classes

MSFI	MRSJS			
Stakes in SOEs	Land, forests, fields, vineyards	Constructions	Infrastructure assets and mineral resources' mines	Heritage
concession	concession	concession	concession	investment
investment, including	investment	investment	investment	lease
restructuring				
sale	sale	sale	partial sale	
lease	lease	lease	lease	
bankruptcy & liquidation				

Source: authors' selection

As suggested by Table 1, the stakes in SOEs are recorded according to IFRS financial reporting principles, while IPSASs are applicable for all other public assets outside of the financial reports of the SOEs. Various public asset usage alternatives, combined with their economic appraisals refer to the economic value of the public assets, that is introduced and updated in the public assets registry as often as possible. According to Tanzi and Prakash (2000:6), if (a) a full inventory of publicly owned assets could be created so that a complete register of public assets were available; (b) if market values could be assigned to each of these assets; (c) if these market values could be used to impute an opportunity cost to the use of these assets in any activity they were used for, and (d) if public sector institutions were free to put these assets to their most productive use, then it would be possible to significantly improve public sector efficiency and maximise the return on resources owned by the government. Only if this is not possible, and if there are no strong social or political reasons to keep these assets in the public sector, then selling them would be an option to consider.

4.5 Institutionalisation and professionalism in public asset management

The practical solutions for establishing public asset management differ from country to country. Basically there has been a worldwide trend of establishing special institutions entitled to manage public assets. They are mostly in state or central or municipal government ownership and the degree of their accountability to top-level public management structures and the public differs as a result of cultural and historical backgrounds. For example, the Government Businesses Advice Branch in Australia was founded as a part of the Shareholder and Asset Sales Division of The Asset Management Group within the Australian Department of Finance and Administration. The Government Businesses Advice Branch oversees and manages the Government's shareholdings in public institutions, and advises on the appointment and remuneration of public institutions' Boards and chief executive officers. The Asset Management Group's goals are to manage the Australian Government's Business and non-Defence property, to implement and manage the sale or divestment of such assets and to perform insurance and risk management operations within the Finance portfolio.¹⁰ Cost, benefits and risk management practice have been introduced into public asset management, while striving to achieve greater accountability and transparency towards the public.

Risk management was introduced into the New Zealand public sector in 1988, when the Government of New Zealand established the New Zealand Debt Management Office in order to improve risk management associated with management of the government's debt portfolio. Besides being responsible for controlling the government's debt and overall net cash flows, it is also responsible for an array of assets of national interest. New Zealand's experience serves as proof that a public sector asset information system should not only refer to the asset recognition process but also to asset management activities. In addition, The New Zealand Treasury has contributed much to the existing literature by publishing several studies on financial management, asset valuation and costing.¹¹ These studies present recommendations for encouraging efficiency in long term asset and cost management.

In China, State-owned Assets Supervision and Administration Commission of the State Council was set up to guide and push forward the reform and restructuring of SOEs, supervise the preservation and value increments of state-owned assets in enterprises under its supervision, enhance state-owned asset management and propel the strategic adjustment of the economic sectors.¹² Drawing on the model of Singapore's Temasek Holdings - a state-owned investment company run by professionals, China established its major USD 200 billion sovereign wealth fund run by the China Investment Corporation in 2007 (Martin, 2008). Many developed and developing countries have been establishing their own sovereign wealth funds as a way of maintaining and increasing certain public assets' value, such as non-renewable resources (Norway, the U.A.E.), and financial assets (Singapore, China).¹³ Still, as described by Allen and Radev (2007:14), where established as public agencies, the companies that run public asset portfolios concentrated in sovereign wealth funds, have the features described in table 2.

¹⁰ <http://www.finance.gov.au/about-the-department/asset-management-group.html>

¹¹ <http://www.treasury.govt.nz/publicsector/>, Accessed in June 2007.

¹² http://www.sasac.gov.cn/eng/eng_index.htm, Accessed in June 2007.

¹³ Although not called SWFs, as their beneficiaries are not the entire public, some examples of SWF practice exist with some types of public assets management in Croatia. These funds consist primarily of financial assets and are run by professional asset managers (e.g. the Croatian Defenders' Fund).

Table 2 Common features of the companies that manage public assets worldwide

They are established in a founding law, charter or contract.
They manage the assets owned by the public that may not be used for private benefit.
They operate with some degree of autonomy from political direction.
They manage its budget autonomously, but within a framework of rules set by the government.
They are financed through a combination of own source revenues, earmarked contributions and transfers from the state budget.
They are accountable to the public, as defined by the law and tradition.

Source: Allen and Radev (2007)

The listed features of the public asset management companies imply that when public asset management is concerned, a certain degree of managerial autonomy needs to be employed. In other words, the management of public assets is to be exercised according to financial management rather than according to political principles alone. The existence of professional management implies that the public sector kick-starts investment practice the same way investors in the private sector do, taking into account future cost-benefit and risk-return relations.

4.6 Cost and outcomes measurement

If the business year ends on December 31, the planning and budgeting process discontinues and starts on January 1 the following year. Public expenditure planning is based on the previous year's expenditure for each level of general government, meaning that each year considerable efforts are made throughout various general government levels and institutions to attract as much money as possible in fear of losing out for the time being. The Parliament deals with adopting the Budget on an annual basis and sometimes with occasional revisions if budgetary revenues or expenditures are deviating significantly from the plan. In order to keep taxes at a reasonable level, when one public institution receives some extra money, it means that another one has to renounce it. Tax revenue allocation is rather a matter of negotiation than real public needs. It is also a fruitful area for testing the loyalty of certain levels of government to the ruling political party. Thus, there is always some room for accusations that public revenue allocation is biased. Although it can be expected that each ruling party manages the country its own way, the process of proper public management and control is practically impossible if the outcomes of public expenditure are not measured. No public representative has so far been sentenced for inadequate or too costly use of public money and the public assets that he or she was responsible for.

Implementing market efficiency principles and good governance practice in general government activities is one of the NPM principles. It means assuring efficient management by measuring outcomes as well as input, and enabling the comparison of public expenditures and revenues from public resource usage. For example, the Australian Government has adopted a strategic financial management framework, based on outcomes and outputs, and accrual accounting. The major benefit of such a framework is the im-

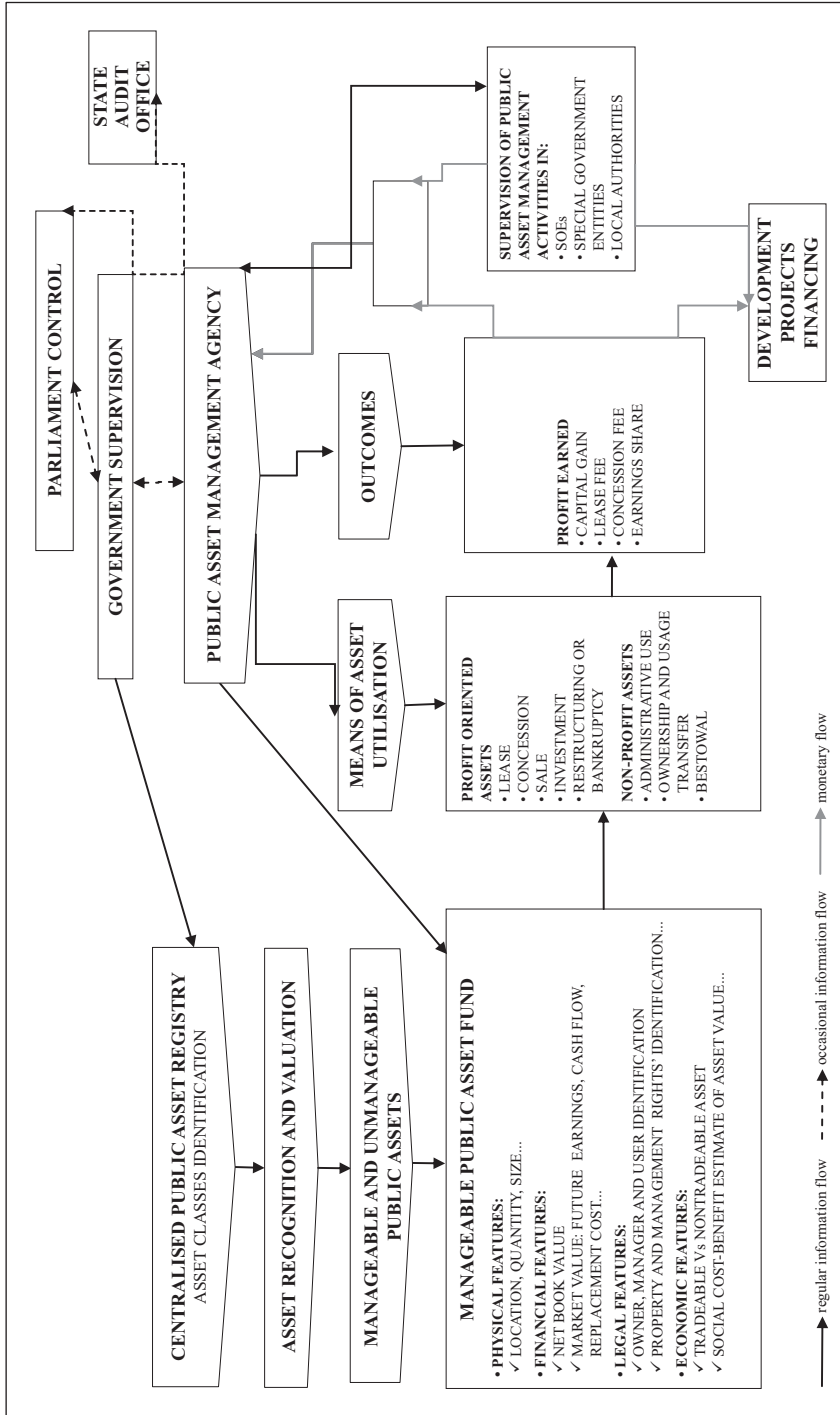
provement of the information base underpinning all public sector activities. The implementation of accrual accounting enables: asset (resource) management, liabilities management, cost management, outcomes (results) management and liquidity management. Improved public resource management results in more efficient and better public service delivery (Lyons, 2004). Leaving the public assets unused or placing them in unproductive or much less economically useful activities, when there is a room for publicly held assets to earn higher profit, represents inadequate use of public resources. According to Tanzi and Prakash (2000), this might provoke certain activities that seem cheap from a budgetary point of view, while they are more expensive from a resource point of view. This is because the use of publicly owned assets to perform public sector activities and programs is not considered as a budgetary expenditure or expense, depending on whether the budget is on cash or on accrual basis. Instead such assets have been regarded as being free of charge. Evaluating the programs means evaluating the activities of public institutions that run the programs to the benefit of citizens. Insufficient use of cost and managerial accounting information would therefore decrease the quality of public administration and management decisions and taxpayers would have to bear the potential economic and financial consequences (Vašiček et al., 2008).

5 Proposal for establishing more efficient public asset management in Croatia

Up to this point, we have concentrated on the public asset registry, public asset classification and recognition, public asset portfolio construction, asset utilisation opportunities, and some institutional solutions for public asset management. Still, several questions need to be answered if a consistent and feasible public asset management model is to be developed. What should the public asset registry look like? What institution is to be assigned to conduct public asset management and whom would it be accountable to? What is going to happen to the network of various institutions that have been designated for management of different classes of public assets within the proposed public asset management model? What would be the right way to allocate revenue and expenditure resulting from managing public assets?

Exhibit 1 illustrates the proposed public asset management model whereby the black arrows represent continuous information flow, while dotted black arrows stand for occasional information flow, mainly in the form of annual reports. The grey arrows represent monetary flows. The left-hand side of Exhibit 1 shows the Centralised Public Asset Registry comprised of both manageable and unmanageable public assets. Manageable public assets constitute the Manageable Public Asset Fund which is managed by the Public Asset Management Agency. The Agency determines the most opportune and appropriate means of public asset utilisation, as shown in the middle part of Exhibit 1. The monetary outcomes of the Manageable Public Asset Fund, shown on the right-hand side of the Exhibit, are diminished by a performance fee that is to be awarded to the Public Asset Management Agency. The same holds for monetary outcomes that the Agency would receive from supervising public asset management activities in SOEs, special government entities or local authorities, in order to ensure that the most opportune public asset usage from a cost-benefit stance is provided to citizens. The remaining part of the monetary outcomes re-

Exhibit 1 illustrates a public asset management model proposal for Croatia.



Source: authors' illustration

sulting from public assets usage is designated to financing of various development projects. The entire public asset management process - Centralised Public Asset Registry maintenance, the Public Asset Management Agency's activities and development project financing, is under regular Government and occasional Parliament supervision. A detailed description of the proposed public asset management model is provided below.

As illustrated on the left-hand side of Exhibit 1, the Centralised Public Asset Registry (the Registry) consists of both manageable and unmanageable public assets. Some public assets in the Registry are designated as unmanageable because of the incomplete record of some of their features. In order to be categorised in the Manageable Public Asset Fund, an asset in public ownership needs to have complete records on its physical, financial, legal and economic features in the Registry. Since the currently existing public asset registry in Croatia, run by the Central State Administrative Office for State Property Management, for all public assets but also stakes in SOEs, is incomplete, and since the records on various public assets and their management are scattered around various public institutions, many public assets do not have the features that are necessary to classify them as manageable. It is thus reasonable to expect that the Registry would have many unmanageable assets at the beginning of the establishment of professional public asset management. Gradually the Manageable Public Asset Fund should receive add-on public assets that conform to all the required features for reliable decision making regarding the assets' usage. All public institutions and central or local authorities that currently use or manage or have records on some public assets, should have access to the Centralised Public Asset Registry to supplement it with available data on public assets. This refers mainly to physical and legal features, without which the financial and economic features cannot be determined. In line with the continuous increase in the number of manageable public assets in the Registry, public asset revenues resulting from putting manageable public assets into productive use would increase as well. The Manageable Public Asset Fund is therefore assumed to resemble an investment fund whose financial reporting is separated from the financial reporting practice of the Public Asset Management Agency, which manages the Fund.

While the physical, financial and legal features of manageable public assets in the Registry are found rather commonly in literature and in practice, the new feature of our model is the establishment of the economic features of public assets in the Manageable Public Asset Fund. The economic features of public assets combined with various manageable public asset usage alternatives refer to the economic value of public assets that also needs to be introduced in order to utilise public resources efficiently. The economic features of public assets include the service potential of public assets and valuation of the assets not only from purely financial, but also from the viewpoint of citizens' social cost-benefit.

From our point of view, the great value of public assets in Croatia calls for professional judgment regarding their valuation and utilisation in order to accomplish the optimal benefit-cost ratio of public assets for the public asset owners – the citizens. Managing public assets implies making decisions on their utilisation, achieving good asset management outcomes as well as making decisions on further usage of net revenues generated by the assets' usage. To achieve these goals, interdisciplinary teams of professionals of economic, juristic and technical backgrounds need to be engaged and, needless to say, awarded according to market-comparable income levels. According to Hepworth (2003:39),

“while accrual accounts can provide a better quality of financial information, there needs to be the ability and expertise in the country to identify and debate the implications of that better quality of financial information. Unless that exists, there is unlikely to be the ability and expertise available to ensure both that accrual accounting is properly implemented and that the results are not manipulated for the benefit of the government of the day”.

Besides the assumable professional responsibility entrusted to the Public Asset Management Agency, the responsibility of the governing bodies of the State, namely the Croatian Government or the Croatian Parliament, should also be established. The formal status of the Manageable Public Asset Fund’s manager – the Public Asset Management Agency, can be subject to choice. By selecting its legal status as an agency, however, we do not exclude the possibility of partial private ownership of the managing institution of the Manageable Public Asset Fund as long as the public assets concentrated in the Manageable Public Asset Fund remain in public ownership. In our opinion, Parliament should adopt general guidelines for short-term, middle-term and long-term public asset management, while the Government’s responsibility would be to oversee the operative fulfilment of the guidelines. The Government would be informed of the Public Asset Management Agency’s activities periodically, while annual reports on the Manageable Public Asset Fund and the Public Asset Management Agency would be filed to both the Government and the Parliament as well as the reports on the stage of Registry completion. The Public Asset Management Agency needs to be independent from the daily operational business of both the Government and Parliament, even though it has to be in line with the Parliament’s strategic goals, because neither Government nor Parliament can carry out operational public asset management tasks. However, as governing bodies respond for their actions to the entire electorate, they need to control the public asset management process on both an ex-ante and ex-post basis, and evaluate public asset management appropriateness in comparison with the predetermined strategically defined goals of the country’s economic development.

There are plenty of SOEs and special government entities that have been conducting certain forms of public asset management processes in Croatia. In addition, there are also many institutions dealing with public asset management that have been established by local authorities. All of them are either acting as managing operators, such as the SOEs in charge of electricity, highways and nature parks, or they are special government entities designated to run strategic projects at the state or local government level. Our stance on this issue is that all publicly owned operators, generally established as certain SOEs, need to resume their business, but the professionals from the Public Asset Management Agency should be mandated onto their supervisory boards.

We do not speculate that the existing public institutions that deal with certain public assets should completely be abolished and transformed into a newly founded single institution – the Public Asset Management Agency, nor suggest that a newly formed Public Asset Management Agency should be in charge of management of all public assets throughout the country. Yet, it seems logical that the special government entities that have been involved in public asset management activities to date, such as the Croatian Privatisation Fund and the Central State Administrative Office for State Property Management, would play the main role in future public asset management. If special government entities that

have so far been in charge of certain public asset management activities continue with the public asset management process, their role would have to be changed by regulatory decrees so that these public institutions are no longer designated as owners, but only managers of public assets. As the Croatian Privatisation Fund and the Central State Administrative Office for State Property Management have been involved in the public asset management process to date, it is expected that they would assume some public asset management activities either as an integral part of the Public Asset Management Agency or as its outsourced partners. Other special government entities that have been entrusted with certain public asset management activities, do not have to be necessarily excluded from some public asset management processes because the outsourcing option for managing public assets remains available for them as well. This is particularly the case with some SOEs that perform business activities by means of certain public assets, such as infrastructure assets, or the case with special government entities, such as ministries that manage and preserve valuable public assets such as heritage assets. However, if the Croatian Privatisation Fund and the Central State Administrative Office for State Property Management are not transformed into the Public Asset Management Agency, their work should be scrutinised in more detail by the Public Asset Management Agency to ensure that public assets are managed efficiently. If the Public Asset Management Agency serves on the supervisory board of a SOE, it would mean that the Public Asset Management Agency would have permanent access to financial and other reporting documents generated in that SOE and that the Agency would communicate interactively with the SOE management in order to control its activities. The same holds for other special government or local entities involved in the public asset management process. As far as local authorities are concerned, they should either keep all their assets and run their management while reporting on their public asset management activities to the Public Asset Management Agency, or outsource public asset management to the Public Asset Management Agency. It is crucial that the public asset management activities of some special government entities stop overlapping so that the most opportune usage of public assets is ensured and that accountability is allotted accordingly.

Regardless of whether the Public Asset Management Agency manages all public assets, or public asset management activities over some public assets are outsourced to management by special government entities or SOEs, the Public Asset Management Agency retains overall control over outsourced public asset management activities. Therefore the data on public assets whose management is outsourced to special government entities or SOEs are part of the Registry but they are not included in the Public Asset Management Fund run by the Public Asset Management Agency.

“There must be no systemic corruption, and no informal parallel processes that are allowed to complement the formal processes that should exist” (Hepworth, 2003:43). Apart from being structured in a systematic manner, the Registry itself is to consist of manageable as well as non-manageable public assets. After the Public Asset Management Agency’s staff has structured the public asset Registry according to the public assets’ features, it is up to the professional Manageable Public Asset Fund’s management to decide on the best use of public assets, to monitor the Fund’s performance and control the outcomes of public assets in the Manageable Public Asset Fund. During the asset usage pe-

riod, the features of the public assets change, with each change being registered accordingly and up-dated in the Registry. Similarly, once the economic usage of a public asset is determined, it can be changed in the case of new investment opportunities related to the asset or in the case of changes in public needs.

Importantly, not all public assets have to be put into commercial use as depicted in the middle part of Exhibit 1. Some of them will be utilised for public purposes - as non-profit assets. However, the practical functions of some public assets will be changed, and some assets would be designated as forward-dragging revenue generation vehicles - the profit oriented assets. In other words, the manageable portfolio of public assets would, with the pre-determined asset classification and selected usage criteria, achieve natural portfolio diversification, measured in terms of both risk and return.

Net revenues (i.e. capital gain, lease, concession fees, and earnings share) generated from public assets in use, would be diminished by the performance fee that is to be distributed to the Public Asset Management Agency. The remaining part of the net revenues is to be kept for financing various development projects across the country. It would be advisable for the decisions on strategic investment projects to be made in an equitable and transparent manner, respecting the projects' profitability as well as social needs fulfilment.

As integral public asset management implies managing public assets and the related liabilities, it should be clear that no public asset management is possible without managing the corresponding liabilities, such as reconstruction, maintenance, legal and other costs. Hence, the proper evidence of all revenues and expenses entries, as well as inflows and outflows, needs to be carefully recorded in the way that is appropriate for financial reporting. So, apart from synthetic accounting run for the Manageable Public Asset Fund, the analytical financial entries for the particular public assets also need to be kept. The more analytical way of accounting would simultaneously set the criteria for priority investments. The latter may be partly awarded in accordance with the location of assets that generate net revenues and partly on an equitable manner. The prevailing principle is that a local community achieves benefits from putting local public assets into use, while recognising that some development investments have nation-wide benefits (e.g. highways). In other words, the outcomes from putting public assets in use need to be decentralised as much as possible.

With the process of implementation of good governance in the public sector, public management elected by citizens becomes accountable for the transparent and, most of all, efficient use of public resources. It implies establishing overall Government and Parliament control functions over public asset management activities, directed towards outcome maximisation and planned economic goals accomplishment, while instantaneously minimising public costs and the budget burden (Barret, 2004).

6 Conclusion

Our research points out the problem of multiple public institutions managing diverse public assets in Croatia. Data shortage and redundant databases result in an unwieldy mix of business processes and uncoordinated actions that, together with the lack of account-

ing and financial expertise in resource and cost allocation practice in the Croatian public sector, prevent public asset management from being efficient. We identify the problems related to current public asset management as follows:

- The current public asset registry in Croatia is incomplete, for certain assets it is redundant, while for others non-existent or scattered in various places or institutions.
- There is a general misunderstanding of public asset definition and lack of proper public asset classification.
- Modified accrual accounting makes public asset accounting difficult, because it does not enable proper recognition and valuation of public assets.
- The separation of profit and cost centres in managing public assets is evident, as the former are firstly assigned to SOEs and special government entities and thereafter spilled over into the Budget, while the latter are closely planned in the Budget.
- There is mixed authorisation for owning, managing and using public assets.
- Commercial management of public assets is limited to privatisation, sometimes concessions and recently public private partnerships, while alternative means of asset usage are barely considered or implemented in practice.
- Public asset management is directly assigned to the Government.
- There is a considerable lack of valuation principles and qualified people to manage the valuation processes of public assets.

Having these numerous reasons in mind, we constructed a public asset management model that could be applied in Croatia for the purpose of improving public asset management and ultimately public sector efficiency. The compounding part of our model is the establishment of a single, central public asset registry that contains reliable data on all public assets. In order to construct the Registry we firstly determined the public asset classes that would be recognised in the public asset registry, based on the IPSASs. Besides, information on public assets needs to encompass the physical, financial, legal and economic features so that an asset can be classified into the manageable public asset portfolio. After adding the valuation of public asset alternative usage opportunities, we actually created the basis that is necessary for successful public asset management. The only missing link is then professional management appointment and the necessary legislation changes. We urge that this is worth the effort as the benefits of the proposed concept are countless. The implementation of the model would resolve the existing disorder in public asset recording and valuation. It would increase the level of managing bodies' accountability for public asset utilisation and therefore it would contribute to the establishment of professional public asset management. The fact that the public sector has been inefficient and often ineffective in its actions, has resulted in the stance that the public and private sectors do not have to be organised and managed in fundamentally different ways. After all, the prevailing difference between public and private sector functioning is that governments have to fulfil public functions by utilising budgetary income generation activities. The implementation of private sector money-making and governance principles in the public sector enforces accountability for organised and efficient performance in public re-

source use and better quality of public services provision. Public sector asset management reform is part of a long-term public sector reform process and it has been generally guided by accrual accounting implementation in public sector financial reporting practice. However, accrual reporting by itself cannot bring about the fundamental changes in behaviour required to realise the full benefits of financial and other management reforms (Mellor, 1996). But, tailored in accordance to accrual accounting and conventional financial management principles, the proposed public asset management model in Croatia should contribute to:

- A standardised information system, with comprehensive and non-redundant data on public assets, such as the one proposed by the public asset registry structure
- unified and standardised procedures in financial reporting
- development of internationally comparable governmental reports
- statistical, accounting and financial reporting system harmonisation
- easier control of management of restricted resources and special government entities' activities
- individualisation of accountability for public asset management
- understanding that public assets are extraordinarily valuable to the public due to their inheritance importance, and current and potential economic and social reasons
- improved quality of public services and reduction of budgetary expenditure, and
- the national economy becoming internationally comparable in terms of public expenditure and outcomes achieved.

Our model is all about a comprehensive public asset registry, financial management approved valuation techniques, and professional, organised and efficient public asset management. We find professional public asset management to be a complex task, both in terms of the duties of a good manager and public accountability, and in terms of reconciling the different objectives of various public asset managers and users. It is not a short-term but a rather long-term process that involves a spectre of changes. No matter how expensive the process of professional public asset management establishment might be, the time has come for public institutions and local authorities to start conducting the activities they were assigned to and founded for, without any redundancies. Their tasks must not purely end up as dead letters in their legal documents. We argue that the time is ripe for public administration and management to start being awarded according to the quality of the outcomes they provide to citizens. In addition, our illustrative model of public asset management might also serve as a guide to other countries that are, like Croatia, faced with public sector inefficiency in general and public asset management inefficiency in particular.

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