

## Directions and Trends in Organizing the Accounting of Public Institutions

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**Abstract:** In recent years, the accounting of public sector entities has registered a number of changes at the internal and European level, following the process of globalization that is manifested through accounting harmonization. The most important benefits of accounting harmonization in the public sector consist in optimizing the comparability of financial information, as well as in increasing the public responsibility assumed by the administrations. At international level, the harmonization of accounting for the public sector is based on International Public Sector Accounting Standards (IPSAS), and at European level, it is intended to be achieved through the creation and development of European Public Sector Accounting Standards (EPSAS). In Romania, the accounting has been used with the appearance of the first human settlements and with the increase of the exchanges of goods. The bases of the organization of public accounting were laid down by the Organic Regulations of 1831 and 1832 and it has undergone a continuous development, depending on the changes of the political regime in our country. Thus, in order to adjust the Romanian accounting system to the new economic, political, legal and social situations, it has undergone an extensive and thorough reform process.

**Keywords:** accounting harmonization; public responsibility assumed; commitment accounting

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### 1. Introduction

With a view to the gradual and progressive implementation of International Accounting Standards for the Public Sector, which will ensure the preparation of quality financial statements and effective control over European public money, as well as a result of the international economic crisis that has forced the EU Member States European to take measures to consolidate the budgetary discipline and to control the budget deficit, inflation, public debt, in recent years, internally and at European level the accounting of public sector entities has registered a number of

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changes. (Criveanu, 2018, p. 5)

Currently, the process of globalization has a stronger impact on the way in which the economic activities are carried out, which aims at creating a uniformity of the practices at global level. In the field of accounting, the process of globalization manifests itself through accounting harmonization, considered a reconciliation of different points of view, being more practical and less rigid than uniformity, which may lead to the imposition of some countries' views on others. In the case of the public sector, since the early 1990s, IFAC has initiated a major harmonization program, aimed at developing a unique set of accounting standards for the public sector and promoting their introduction at all levels of administration, respectively central, regional and local.

Accounting harmonization brings with it many benefits, of which we remember the one we consider the most important, namely improving the comparability of financial information, but, on the other hand, this process involves a major disadvantage, namely the possibility of losing sovereignty by certain states, which can lead to a reluctance to apply international referrals. Accounting harmonization in the public sector has gained importance in the light of the fact that it is considered a way to significantly improve the public responsibility assumed by administrations, to facilitate the analysis and comparison of financial reports prepared in the public sector by the stakeholders, respectively to evaluate the performance at different levels of the administration. At the same time, as an instrument for improving transparency and comparability, accounting harmonization also contributes to the improvement of the decision-making process.

The perception of accounting should be radically changed, as accounting is an important part of financial management, meaning much more than just financial reporting. Commitment accounting should advocate for accrual-based budgeting so that current and budgeted inputs are easily comparable. Another important issue with crucial consequences for the success of commitment accounting in the public sector is the establishment of accounting standards.

## **2. Development of Public Accounting at International Level**

From a historical perspective, public sector accounting was initially based on cash (cash basis accounting), which was invented 250 years ago in Austria and used for the first time in countries such as Austria, Belgium, Finland and Germany. The change and modernization of public sector accounting includes progress in improving cost and budgeting issues, but the main change that has attracted public attention has been the transition to commitment accounting, a process that has had significant effects on financial reporting and accountability.

Commitment accounting was developed for the purpose of financial reporting by private sector entities and was considered to be superior in terms of efficiency compared to cash accounting, being more representative for measuring sustainability and providing much more information. relevant in the decision-making process. At the same time, commitment accounting is considered more complex, from the point of view of sound technical expertise and the high professional reasoning it requires. Recognizing the implications of harmonization in order to improve transparency, a number of international and European bodies and institutions such as the OECD, the European Commission, the International Monetary Fund or Big 4 group companies support research in the field of accounting harmonization in the public sector.

An essential basic concept for the good performance of the activity in the public sector and presented in the specialized literature is the public responsibility assumed. Studying financial reporting in the public sector brings this concept into question, with a close connection between financial reporting and public responsibility assumed, defined as "the responsibility to provide information that allows users of accounting information to make value judgments on position, financial performance, financing and investments, as well as the entity's compliance". The public responsibility assumed is associated with the responsibility related to a certain behavior or action, being classified into four categories: bureaucratic, legal, professional and political, categories to which it is added hierarchical responsibility.

The public responsibility assumed is closely connected with aspects such as respecting the information transparency and the legal framework in place, ensuring a prudent and rational use of existing resources or providing organizational feedback in order to facilitate the internal processes, being seen as a relationship between politicians and citizens, but also between politicians and managers of public institutions. Also, some authors highlight the social nature of the relationship that this responsibility creates between the producers and users of accounting information in the public sector.

As regards the users of the accounting information in the public sector, the specialized literature includes a series of their classifications. Thus, the most comprehensive classification comprises seven categories of users, including citizens, their representatives, decision-makers (Government and ministries), managers of public institutions, employees and professionals from public institutions, regulatory bodies and creditors of public institutions.

The concept of harmonization in the field of accounting designates the process of alignment, compatibility, of the accounting norms in force. The purpose of the process of harmonizing international accounting standards is to reduce or overcome differences worldwide, in order to reach a better international comparability of financial statements. Achieving a harmonization implies a general consensus at the level of the accounting systems, but this is quite improbable, taking into account the

multitude of functional, cultural or ideological factors that influence the differences of vision. The measurement of international accounting harmonization allows the decision makers in the field of accounting to evaluate the effect of their recommendations and to identify the aspects on which they must focus their efforts in the future.

Accounting harmonization at international level is based on international accounting standards: International Public Sector Accounting Standards (IPSAS) for the public sector and International Accounting Standards (IAS), respectively International Financial Reporting Standards (IFRS) for the private sector. In the case of the public sector, the idea of harmonizing the accounting is much more recent than in the case of the private sector, which is why it was not given the same importance as that of the private sector, as there is not a very high interest for the accounting harmonization in the public sector, having the great differences between states and the particularities of the public sector.

International Public Sector Accounting Standards (IPSAS) represent a set of 40 standards based on commitment accounting and a standard based on cash accounting. These are designed and developed by the International Public Sector Accounting Standards Board (IPSASB) and they represent a key incentive for the process of accounting harmonization in the public sector. IPSAS are designed to provide high quality financial information, comparable internationally, in order to improve transparency. Adopting IPSAS encounters many barriers or criticisms regarding the approach to standards for the private sector, the interest expressed by states to maintain their control and sovereignty, the costs and training that this adoption would entail, but also concerns about IPSASB governance. Approaching the standards for the private sector generates the incompleteness of IPSAS regarding certain specific needs of the public sector, such as taxation or social benefits. Another criticism of these standards is that they do not adequately address the budget features of public administration, mentioning only the budget information that should be included in the financial statements. This is in contrast to the importance given to the budget, especially in certain countries, and may be a risk to the adoption of IPSAS, especially in countries where the budget is a basis of the accounting system, as is the case in Finland. In addition, the inclusion of fair value as a measurement criterion in the public sector is strongly criticized. (Crisan, 2017)

Regarding the accounting harmonization in the public sector at European level, according to Eurostat, this is intended to be achieved by the creation and development of the European Public Sector Accounting Standards (EPSAS), taking into account the fact that IPSAS cannot be easily implemented in the current form in the Member States of the European Union. The main need for the creation and development of EPSAS is given by the existence of significant differences between

IPSAS and ESA, differences whose reconciliation is pursued through the creation of these standards applicable at European Union level.

At this time, the extent to which EPSAS would be different from IPSAS is not determined, the latter standards being used as a reference for the development of the former. Given that 2012 represents the moment of public consultation on IPSAS, the expected year for the implementation of EPSAS at European Union level is 2020, being considered a realistic term for achieving this objective. Although it is quite difficult for these standards to be implemented in all 28 Member States, reducing the number of states where the quality of the information obtained is low would facilitate the performance of Eurostat tasks. A potential result of the implementation of EPSAS will have a symbolic role to improve the comparability of the financial performance of the Member States, because the differences of social or legislative nature and the way the public accounting functions at central, local or regional level limit this comparability, so it can be carried out only on a rhetorical level.

EPSAS standards would take the form of binding legal acts, drawn up by an EPSAS committee, composed of representatives of the Member States, chaired by the European Commission and supported by working groups, with other stakeholders being involved through consultations or as observers. According to a study by Pricewaterhouse Coopers (2014), regardless of the degree to which IPSAS are considered a reference for the development of EPSAS, there are several arguments against the creation and development of these standards valid at EU level, which is still an aspect that it raises numerous question marks regarding the real need to develop and implement standards that are valid at the European Union level. However, the scenario in which EPSAS is developed with IPSAS as a point of reference presents a single major argument against this scenario, materialized at the risk of reduced involvement from states that tend to reject IPSAS.

In addition to the financial and statistical reporting systems, public institutions also prepare budget reports. Unlike accounting and statistical systems, in most countries, budgets are drawn up on a cash basis. At the level of the states of Europe, there is a rather high heterogeneity regarding the bases on which the budget is based at different levels of the administration.

### **3. Modernization of Public Accounting in Romania**

In the territory of our country, accounting has been practiced since ancient times, with the organization of the first human settlements and with the development of exchanges of goods, in response to the information needs related to the conduct of economic activities. The first accounting works appeared in the Romanian space only in the first part of the 19th century, with a delay of almost three centuries compared to the western European countries, representing, for the most part,

translations of some accounting books, written by French authors, Germans or Italians. The Organic Regulations of 1831 and 1832 had a special role in the evolution of the Romanian accounting because with their contents, they laid the foundations for the organization of the public accounting and the accounting education in Moldova and in the Romanian Country.

In 1865, the law of public accounting was elaborated, which was applied for thirty years, with a series of changes. Public accounting has gradually expanded to other areas of public administration by the law of 1895. None of these laws makes any reference to the scientific system of the double party. Although double-party accounting becomes mandatory in our country only through the law of 1929, the catastrophes with accounting records, belonging to the merchants from Brasov and Sibiu, show that they knew the Venetian accounting practices since the 16th century. Many Brasov trading houses practiced economic calculations and kept double accounting according to Paciolo's rules. Unfortunately, until the mid-1970s, the accounting in our country did not allow a specific Romanian thinking, which was strongly influenced by the Soviet experience.

In order to keep the normalized accounting, accounting rules were established that reflect the economic and financial operations, using the first plans of accounts and balance sheets structured by activity branches of the economy. Over time, the account plans underwent several processes of change, being differentiated by branches of activity until 1971, when the plan of accounts based on a single general framework was elaborated.

The public accounting system in Romania has evolved in a natural way, taking into account the changes that this country has taken over the decades. Being a former communist state, the system of public accounting has undergone a series of changes, especially after the fall of the communist regime. These significant changes were generated by the need to adapt to the characteristics of the market economy, the communist regime being characterized by the centralized economy. There are certain legislative regulations considered defining for the evolution of the public accounting system in Romania, such as the Accounting Law no. 82/1991, Order of the Minister of Public Finance no. 1.746 / 2002, G.D. no. 81/2003, Order of the Minister of Public Finance no. 1.487 / 2003, but also O.M.F.P. no. 1917/2005.

**There is consolidation of the formulation of the budget based on programs,** process supported by the Law of public finances no. 500/2002, which guides the entire financial management on the performance criterion. Program-based budgeting generates and relies on multiannual priorities, which increases the predictability of budgetary policies and the business environment and which will contribute to mitigating efficiency losses.

Within the actions aimed at restructuring the budgetary process, but also at improving the structure and transparency of budgetary expenditures, a new

classification of indicators on public finances has been elaborated, which mainly concerns the following:

- Income grouping according to the sources and their nature, according to the international methodologies and the manual on public finance statistics published by the International Monetary Fund. This allowed in addition the reclassification of most of the revenues that are currently improperly grouped as “Other taxes”, “Various revenues” or “Payments from public institutions”;
- Within the economic classification of expenditures, greater detail of their structure was considered, which would provide more accurate information on the allocation and use of public funds, but also some new approaches.

According to the studies carried out in the specialized literature regarding Romania, the public sector accountants consider the **commitment accounting** only a rule imposed by normalizers being also revealed an increased need for their training. The reform in the Romanian public sector began in 2002 when the Government's decision established the use of **accrual accounting** to supplement cash accounting.

Thus, Romania's experience regarding the adoption of IPSAS began in 2002, with the transition from cash accounting to commitment accounting, a moment characterized by the publication in the Official Monitor of the Order of the Ministry of Public Finance no. 1.746 / 2002, order that includes the approval of the methodological norms regarding the management and organization of the accounting of the patrimony of the public institutions, of the plan of accounts, respectively of the accounting monograph for the main operations. In carrying out these major changes to the Romanian public accounting system, in addition to the official form of IPSAS standards, elements such as the European System of Accounts (SEC 95), the Financial Regulation of the Council of Europe no. 1605/2002 or the Manual of Governmental Financial Statistics (GFS), prepared by the IMF, through the statistics department. (Nistor, 2009)

Based on the provisions regarding the local public finances, the accounting law and the methodological norms for the hiring, liquidation, ordering and payment of the expenses of the public institutions as well as the organization, recording and reporting of the budgetary and legal commitments, approved by the Order of the Minister of Public Finances no. 1.792 / 2002, the public institutions must follow the procedures regarding the four phases of the budget execution of the expenses, respectively their employment, liquidation, ordering and payment. In order to comply with the aforementioned provisions, their own methodological norms were elaborated, which have as their object the establishment of the procedures, of the persons involved and of the documents regarding the execution of the expenditures that are made from the public funds, at the institution level.

The changes in public management in recent years have led to a remarkable development in the field of public accounting. Public accounting is able to provide information on better budget management, as well as on the correct and appropriate use of public funds, thus ensuring users the best economic decisions. For fulfilling this requirement, it is necessary to switch from a cash accounting, oriented on resource inputs to a results and performance oriented approach - commitment accounting.

**In the transition to commitment accounting**, Romania took into account the requirements of the Financial Regulation applicable to the general budget of the European Community no. 1605 / 25.06.2005 and of the European Commission Regulation on the detailed rules for implementing the Financial Regulation no. 2342 / 23.12.2002, Chapter "Accounting and presentation of accounts", regarding:

- methods of valuing assets and liabilities;
- generally accepted accounting principles;
- structure of the plan of accounts;
- structure of financial statements.

As a future member country of the European Union, Romania has been concerned with the adoption of European legislation in the field of public accounting, at this time reporting important achievements on the transition line to commitment accounting:

- the recording of tax receivables from January 1, 2003;
- calculating and recording the depreciation of fixed assets as of January 1, 2004;
- making and experimenting with the new accounting regulations in 2005;
- training of personnel from the financial-accounting departments by the National Institute of Administration and the Regional Vocational Training Centers.

During 2005, a series of measures were taken to improve the system of allocation and use of public funds and to ensure the modernization of the public accounting system.

In 2005, several pilot entities were involved in the process of full implementation of commitment accounting, the transition to commitment accounting for all public institutions in Romania taking place only from January 1, 2006. However, for pilot entities there were no public information on the success or not of the pilot project. (Pitulice, 2013, p. 57)

By Order no. 2021 / 17.12.2013 for the modification and completion of the Methodological Norms regarding the organization and management of the accounting of the public institutions, the Accounting Plan for the public institutions



and the instructions for its application, approved by the Order of the Minister of Public Finance no.1917 / 2005, published in the Official Monitor no. 831 of December 24, 2013, in order to comply with commitments agreed with international bodies, for the modification and completion of normative acts, as well as establishing the reorganization measures within the central public administration, a new plan of accounts was issued, with development up to the level of synthetic accounts of the third degree. At the same time, the development of synthetic accounts in analytical accounts has as purpose the reporting of verification balances, in a unitary way, by all public institutions, towards the Ministry of Public Finance, starting January 1, 2014.

The above order completed the analytical accounting of the accounts with the following information: sector code, source of financing and classification of incomes (chapter, subchapter, and paragraph), functional classification of expenses (chapter, subchapter, and paragraph) and economic classification of expenses (title, article, and paragraph).

The same order established the correspondence between the expense accounting accounts and the income accounting accounts, the budget codes in the classification of public finance indicators.

Following the legislative changes regarding the reports imposed by the Ministry of Public Finance to the public institutions, with a view to the unitary centralization of the financial-accounting information, the plan of accounts has undergone a series of changes.

Thus, starting with 2014, the public institutions had the obligation to transpose the balances from December 31, 2013 into the new accounts in the plan of accounts approved by the Order 720/2014 issued by the Ministry of Public Finance, for the approval of the methodological Norms regarding the execution of the budgets of incomes and expenses of the autonomous public institutions, public institutions financed wholly or partly from own incomes and activities financed wholly from own incomes, including internal credit budgets, external credit budgets, non-reimbursable external fund budgets, risk fund budgets and privatization activity budgets, managed by public institutions, regardless of how they are organized and financed, published in the Official Monitor of Romania no. 396 of May 29, 2014.

Therefore, all public institutions, regardless of the form of financing, were forced to use the same accounts and the same indicators in the economic classification, for a good centralization at the level of central and local public administration.

Institutions with financing from their own activities, financed entirely from own revenues and subsidies, financed entirely from own revenues until the end of 2014 used accounts available depending on the source of financing. Starting with 2015,

they were obliged to transfer all the amounts collected and paid on the functional and economic classification.

#### **4. Conclusions**

Accounting harmonization in the public sector has, at international level, the International Public Sector Accounting Standards (IPSAS), elaborated by the International Public Sector Accounting Standards Board (IPSASB), body whose objective is to support the public interest, by developing high quality accounting standards to be used by public institutions in the process of preparing general purpose financial statements. The main objectives of the IPSAS referrals are to support the accounting harmonization process, increase comparability, but also to improve the transparency of public sector information presentation. The application of these standards is not mandatory (Tiron-Tudor, 2010), but only recommended, depending on the free choice of public administrations or on various pressures exerted by certain institutions. In addition, at European level, lately, the creation and development of EPSAS (European Public Sector Accounting Standards) by the European Commission, through Eurostat, aims at achieving an accounting harmonization between the Member States of the European Union. Regarding the use of the accounting system based on commitments in the public sector, the general tendency manifested in the specialized literature is to appreciate its superiority, compared to the cash based accounting system, due to the sound expertise and professional reasoning that it requires. However, the results of some research indicate that, in some jurisdictions, the cash-based accounting system is more suited to the needs of the public sector.

Regarding the accounting harmonization in the public sector, it is internationally supported by the IPSASB, body responsible for the development of IPSAS, the main instrument used to achieve the aim of accounting harmonization. In Romania, the development of public sector accounting was initiated in 2002 and imposed on all public institutions in 2005. The transition is still a static process, although there are many aspects to be clarified. The changes in the accounting plan over the last ten years have been profound, the Romanian accounting system being subjected to a broad and serious process of reform, in order to adapt to the new economic, political, legal and, not least, social conditions. In the public sector, the changes sought to optimize the budgetary foundation and execution so that they reflect, in real terms, how the public money is spent in order to achieve the general interest objectives of the entity.

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