

## Negative Effects of Bureaucracy in Accounting

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### Abstract

*The complexity of economic activities is also due to bureaucracy, which has had negative effects and has caused the prolongation of the crisis periods, bankruptcies of companies with national and international importance. Bureaucracy encouraged the move of profits in countries recognized as tax havens. The more bureaucracy, the more corruption cases occur, but it can also cause errors in the centralization of accounting information, or incomplete, unclear information that can lead to misconduct in the economic development of entities and the whole of society. The lack of consistency of the legislation discourages the business environment, as it has caused large damages among entities. Bureaucratic elements have diversified forms of corruption. Often unnecessary bureaucracy may have hidden mobiles linked to the corrupted character of employees at various hierarchical levels that lead to measurable losses and the creation of harmful image to entities and to the country.*

**Key words:** Bureaucracy, Accounting, Factors, Legislation, Damage.

**J.E.L. Classification:** D04, H23, H30, M21,

### 1. Introduction

In the current economic system, there is a process to adapt the Romanian accounting complex to the European one. With the transformation of the legal provisions, more significant practices are being imported, increasing the bureaucracy. European bureaucracy has not always proven to be beneficial. Theoretically it is considered that bureaucracy leads to transparency and efficiency, but most of the times imported bureaucracy generates the supplementation of personnel expenses, overheads, administration and electricity consumption, heat and stationery materials consumption, efforts made by the entities that usually are not accepted and accepted but imposed.

### 2. The risks of excessive bureaucracy

Bureaucracy leads to the hiring of unskilled staff which, according to some is seen as a form of supplementary control, and actually these people are not specialized in the areas in which they are employed, they intervene with their own objections to the knowledge they have and hinder the activity of any entity. On the other hand, in the entities where there is no additional employment, the volume of work increases in the financial-accounting department, with situations that are reflected in other forms, all of them on short term, coming from several state institutions, of course. These institutions may take over the accounting data, especially from the annual financial statements of the entities, without requiring additional forms, with columns or rows displayed differently but actually copied from the financial statements. With the rise of bureaucracy, corruption is developed, pressure arises from the beneficiaries to use bribery in order to solve their problems. Sometimes without it being necessary, the beneficiaries being unaware of the procedures, consider that there is bad will, they consider it a hidden practice but the expectation to receive a commission in the form of bribe is significantly unrealistic, this leading to complaints.

Following complaints, the entities are overwhelmed with a great number of controls, all these accentuating the time crisis in the professional execution of the works in the financial-accounting department. Often, these unrealistic considerations regarding the expectation of bribery are strongly publicized, leading to the decline of the image of employees working in the administrative and financial-accounting field. In our country, the level of corruption is much lower than in other countries, but those states have other policies, they are promoting their good deeds, and thus becoming trustworthy for the other states. When negotiating with foreign partners, they present themselves with another image that helps them establish contracts with more favorable clauses. It is not pleasant to participate in events, symposiums, international conferences, or talks about corruption in Romania, or to participate to presentations about economic developments in the neighboring states without Romania appearing in the context, because it is perceived as a corrupt country and it may not seem interesting, although many times, reality is different. Other entities, who know the real economic resources and the power of Romania, come with proposals for partnership to their advantage, mentioning and accounting for the risk of working with partners in a state where corruption is high.

### **3. Negative effects of bureaucracy**

Bureaucracy is beneficial until it controls the way taxes and duties are collected, how the state budget is managed, how financial and fiscal legislation is respected. The more the bureaucracy increases, the more corrupting levers are developed, people are asked to monitor, but in reality they are looking for ways to circumvent the law, they seek to introduce obstacles such as loss of documents and information, leading willingly or unintentionally to damage the entities or the state budget. European bureaucracy is steadily increasing, the number of forms to be completed and transmitted on line has also increased, but the old printed forms are maintained.

As we struggle with legislative changes at a European and national level, new documents appear that need to be completed and transmitted by the employees within the financial-accounting department.

On the brink of bureaucracy, the suffocating amount of documents in the financial and accounting department, taking advantage of time-related crises, due in particular to procedures that are not only mandatory, but their non-compliance leads to pecuniary sanctions and imprisonment, there are also employees who, even if not involved in the procedures, promise to speed up the steps in order to obtain unlawful benefits.

There is a struggle for fighting corruption using the methods copied from other European states and are partly adapted to the socio-economic particularities of Romania.

In Romania there are several institutions dealing with the discovery and monitoring of corruption phenomena. But, unfortunately, these institutions also depend on the bureaucratic system; this helps some offenders, and often efforts are not completed.

It has been found that the activity is disturbed by bureaucracy, but instead of simplifying the system, legislation has changed and it further increases the activity of the financial-accounting department through the implementation of new forms.

I consider that it is necessary to build the practical activity on the basis of accounting practices, and less on the creation of a large number of documents that have to be completed and transmitted.

Why not say that those who carry out the greatest frauds, ignore accounting and avoid working with legal documents.

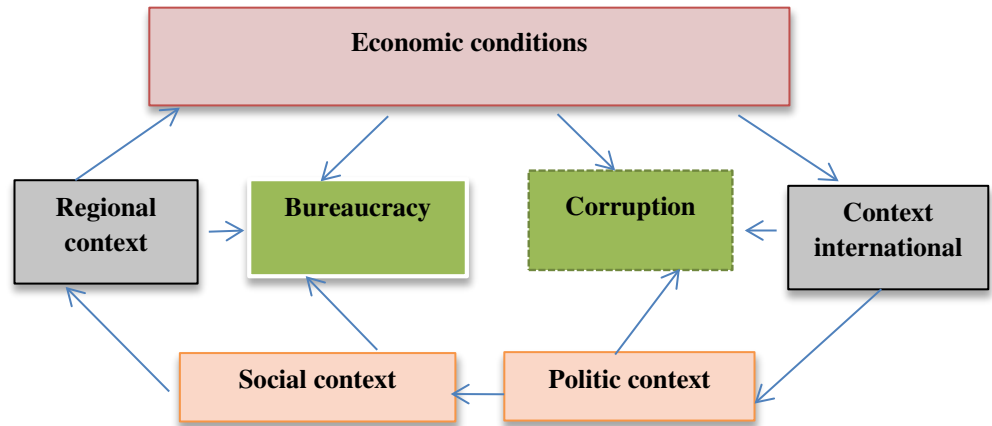
In order to fight against corruption and evasion, it is necessary to equip and modernize the institutions which are responsible for preventing corruption and evasion, for promoting transparency using modern means but as simple and accessible as possible for the entire population. It is also necessary to make unitary decisions in solving cases of corruption and evasion.

The accepted and imported bureaucracy, sometimes imposed by the European Union, facilitates the context for more developed countries, leads to the concentration of administrative power, at the disposal of one or several persons who decide how to issue the authorizations and approvals that citizens of those states need".

Corruption is accentuated in times of economic crisis and allows new forms of manifestation, with the accentuation of the globalization phenomenon. Both corruption and bureaucracy need to be minimized so as to diminish the perturbation of economic and social life.

Bureaucracy and corruption are influenced by several factors that we will present in the following chart:

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Source: Ionesu Luminita, "Principii si ipoteze in fenomenul birocratiei si coruptiei", Teza postdoctorala, Academia Romana, 2012

Corruption cooperates with money laundering. There are cases when economic activities are not accounted for, money is deposited in banks, especially in countries where their origin is not declared, countries which are tax havens, and investment in real estate is done without justifying the origin of the income sources. In order to reduce money laundering, the European Union has imposed severe measures in the financial, fiscal and customs fields.

It is absolutely necessary to be aware that excessive bureaucracy has a negative effect, that it causes a complex of issues that determine distortions in the economic, social and political activity. Excessive bureaucracy leads to discouragement of investment and promotion on new markets, leads to the economic crisis and discourages the penetration into the financial market. When bureaucratic procedures are increased, corruption and tax evasion occur, thus offering gifts, favors, and by consequence, intentionally modifying financial and accounting documents.

With the change of documents or the non-registration of economic activities, taxes corresponding to the state budget are reduced, and in the financial statements there are reflected tax losses. It can also be the case when due to some forms involving more supporting documents, part of the expenses are not registered in the accounting declarations, leading to high profit values, which creates a very favorable image of the entities. This is the main issue when trying to attract investors, to issue shares and bonds, or when it comes to getting a low-risk fees.

<sup>iiin</sup>Accounting, as a means of registration the financial situation and the financial performance in a certain situation, can become a field of bureaucracy and corruption, all the more so as the legislative changes and the adaptations of the European directives regarding the national accounting system, including the requirements of some financial-banking institutions or international bodies, are produced at a relatively high frequency."

Lack of consistency of the legislation, the frequent legislative changes during the financial year, the changes in of tax or fees percentages around the year, or the changes in the way in which economic activities are taxed during an year, require the preparation of other statements, their submission accompanied by accounting balances from the end of the previous year, from the month in which the change of the mode of taxation is made, the copies of the registration certificate and other forms, requested by overzealous tax inspector. All this determines errors regarding tax calculation, which further lead to penalties on the entity submitted to control.

Bureaucracy is also manifested by the overlapping of both electronic and printed documents. We often find that documents sent electronically to NAFA, HIF, TLI do not appear in the databases of institutions, which is why it is highly recommended to make copies of such

documents and retransmit them. But during this period, in which we are suffocated by statements, by situations demanded by various institutions, which are not electronically related between them, it is not at all comfortable for some entities, preventively, to make these copies, to save again these documents, due to the fact that institutions have lost their databases and cannot be held responsible for this. On the contrary, the entities are asked to come back with all the necessary financial situations.

The electronic signature is another form of stress for entities. Although it has been introduced as a measure to ease the work of the staff in the financial accounting department, many documents need to be obtained, procedure which is repeated for the annual renewal. These means of electronic transmission of the papers involve other annual expenses for the entities involved. The electronic signature is used for both the transmission of tax declarations and statements, as well as for the registration in the Electronic Public Procurement System, for public institutions, for which payments have begun. It cannot be overlooked, the way budgets need to be prepared, the time required for validation, followed by the hiring of expenses, and their reception, in order to make the payments, sending for validation to the Ministry of Public Finances, waiting for a subsequent validation, only after which payment orders can be issued. It has been noticed that in order to make payments, numerous operations are required within a minimum of 4-5 business days. This process is mandatory for all entities using public or structural funds. The current form of bureaucracy also requires the consumptions of material resources, paper, toners, electricity, and equipment using certain parameters, which must be replaced to be compatible with software updates that appear regularly. All this is not simple for entities to support, it means making considerable efforts.

In addition to costs, public institutions and economic agents are experiencing difficulties because successive legislative changes involve additional human efforts in order to adapt to these modifications, but also knowledge, assimilation, and implementation processes.

The lack of a clear legislation, without methodologies, instructions and models, leads to different interpretations, creating discrepancies between control inspectors and accounting professionals of the entities, between inspectors and different institutions, including among inspectors of the same institution, causing misunderstandings, compromises and acts of corruption.

Another form of corruption is the one that occurs through contracts, sometimes fictitious ones, in which tax cuts or leaks are pursued, money which is redirected to other spheres of interest.

Bureaucracy favors corruption, favors money laundering, favors postponement of tax payments over longer periods of time, transfers profits in other directions and even outside the country, not where the entity carries out its economic activity, especially regarding foreign-owned assets.

The number of bank account characters, 23 respectively, is not to be overlooked. There are different accounts for each activity field, for each distinction, for each agreement and for each source of funding. These accounts, the budget items and indicators are introduced in a database designed by the Ministry of Finance, consisting of several thousand indications, the characters are very small, and the accountant fills out the forms, carefully looking for the account and the necessary article, leading to further errors or resuming the verification operation. Work volume in the financial accounting department has been doubled in recent years, due to bureaucracy and the multitude of situations to be drafted and transmitted. Working time is a problem faced by employees in the financial-accounting system, they are either forced to work without having their efforts recognized, they have to face working overtime, or the work is only partially and superficially performed.

In an economic crisis situation, the emphasis put by the European Union, regards preventing and combating corruption, money laundering, eradicating financial terrorism, which is done through stable, unitary laws, professionalism of the employees, cooperation between entities and state institutions and the adoption of certain tools so that accounting work provides the necessary information to the entities, oriented to reflect the economic activity and to ensure the correct image of the patrimony and development perspectives in a safe national and international environment.

But these goals cannot be achieved with excessive bureaucracy.

### 3. Conclusions

Bureaucracy favors factors of influence in the economic, social and political environment. Strategical inconsistencies in the legislative process, frequent changes of the Accounting Law, the frequent amendments to the Fiscal Code and the Fiscal Procedure Code, the changes and continuous adoption of new forms regarding tax returns and changes in the way of filling them in and their transmission, affect the activity of both entities and institutions that manage the way of submitting forms to tax authorities, the collection of taxes and fees, the storage and archiving of documents and information.

Excessive bureaucracy has created inadvertencies, confusion and incompatibilities in the work of the employees activating in the financial-accounting department, and furthermore, even the purpose of the procedures is lost.

### 4. References

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