

Peculiarities of Public Institutions and Their Influence on Financial Reporting

Claudiu – Florin Deac

Margareta Ghisa

"1st of December" University of Alba Iulia, Romania

deac.claudiuflorin@yahoo.ro

margaghisa@gmail.com

Abstract

In 2007 with Romania's accession to the European Union, the evolution of civil societies is a heritage or a main concern for the care and conditioning of the implementation of a new management in public institutions from Romania and the harmonization of the national legal framework with international accounting rules. Legislative modernization and the transition of quality management based on results obtained as the main objective eliminating bureaucracy of the public system and simplification of financing reporting methods by creating transparency and relevance information about them can be provided. An innovation solution to be able to control public institutions can be inspired by the administrative model in the countries of the European Union and Switzerland, but also in the private sector. The aim of this paper is to research the specialized literature, in order to identify the particularities of the accounting of public institutions and to highlight the degree of harmonization of the national legislation with the international accounting standards.

Key words: public sector, financial reporting, accounting, public services

J.E.L. classification: H10, H50, H60

1. Introduction

The main purpose of public institutions is to ensure social and political order and security, so they have higher priority in their implementation and can use efficient function and care systems to ensure good local organization. . At the moment in Romania, the public administration is possible for a reform of the administrative follow-ups regarding the progressive indicators of quantity and for the qualitative ones. Stages of modernization and the purpose of the traditional and normal combination are needed, which sediment the necessary local community, the elements of modernism corresponding to the international principles and standards for state care have adopted and are committed to implement them. In terms of economic security, the influence of globalization can be used to enable economic and financial activities, seeking to standardize global reporting. In the field of accounting, the phenomenon of internationalization can be achieved by ensuring the harmonization of care is a process of reconciling the different positions and one can observe a uniformity of them, when one can make an overlap, when one can see completely opposite of to another high country.

2. Literature review

Accounting is the activity by which persons who perform economic operations, measure, weigh, estimate, evaluate, manage and control the assets, liabilities and equity of an entity, and the results obtained through these operations and from the chronological and systematic recording of events, generate data important information on the financial position, financial performance and cash flows, information that is processed and published for use by various people.

Professor Ștefan I. Dumitrescu presents in the course "Elements and principles of accounting science" public accounting as follows: it can be stated that this type of accounting is not designed in order to highlight the results of the activity by sizing the profit, this being born in order to provide information about the revenues and expenditures that build up the public administration budget (Constantin E., 2005, p. 253). Public accounting reflects the record of operations within a public patrimony, this appeared as a consequence of the need to highlight the expenses of administration of cities, then of states. This branch of accounting was also known as chamber accounting, a notion used especially in German-occupied states, where all the financial management procedures were based on the usual operations and did not take into account the formation of assets. The beginning of chamber accounting divides specialists in two fields, namely: some who consider Mathias Puechberg as the father of this accounting, he published in 1772 a paper on his method of accounting being the head of accounting at the Chamber of the Imperial Court in Vienna, and others consider Professor Jung of Heidelberg to be the founder, who published his work in 1786.

In our country, the Union of Romanian Principalities from 1859, was the starting point in the development of public accounting, and the first law on financial organization was to appear a year later with the vote on the Financial Regulation.

As society was constantly changing, this regulation began to present certain deficiencies, inconsistent with the needs of the environment, and as a consequence in 1864 appears the General Accounting Law of the state which stated that "all income and expenses necessary to meet special services, established according to the laws, must be authorized for each year by an annual finance law and form the General State Budget "(Bistriceanu G., 1992, p. 236). The Great Union of 1918 created a consolidated financial and fiscal system by merging public accounting, and the first unified budget presented by Finance Minister Nicolae Titulescu brings with it the fiscal reform of reunited Romania, based on the legislation of economically developed countries. This reform focuses on:

- reducing expenses without influencing the quality of services provided;
- establishing preventive control over public expenditures;
- introduction of the global income tax;
- ordering material and personnel expenses in 12 equal monthly installments.

Economic and social progress has required measures to improve the forms of accounting as modern means of calculation are addressed, and the Ministry of Finance has supported this development by developing year-by-year instructions and methodological rules for implementing the legislative framework.

Public institutions are represented by those units through which the state performs its Public institutions are represented by those administrative units through which the state fulfills its functions and prerogatives in the field of administration, in the sphere of socio-cultural actions, justice, criminal prosecution, defense of the country (Macriș M., 2009, p. 6). These can be of central importance such as the Parliament, the Presidential Administration, ministries and other central institutions, or local such as territorial, city or communal administrative units, county councils and public services under their subordination. The public financial resources available to the state through the components of the general consolidated budget are intended to finance the public sector, which is the main consumer of public funds, so the accounting of this sector must inform correctly, relevant and timely users of accounting information.

The chart of accounts of public administrations includes budgetary accounts and general accounts, with particularities regarding their structure, but also with distinct operating rules. The budget accounts reflect the operations of revenue collection and payment of expenditure, but also of establishing the result of budget execution. The general accounts reflect transactions generated by assets and equity, but also by expenditure and revenue for the current budget year, which is similar to the calendar year, regardless of whether revenue has been collected and expenditure paid. Although public accounting is different from private accounting, they also have common points such as: they use the same models of accounting records, have the same legislative framework and deliberative body (Ministry of Public Finance) when preparing the balance sheet models and the structure of the budget execution account, the accounting is performed in double entry, the operations are recorded chronologically and systematically in the accounting, the total debit and

credit amounts are established but also the final balance of each account, the verification balance is drawn up monthly to determine the equality between the total debit and credit amounts and totaling account balances. In exceptional cases, deviations from the accounting principles may be made, they must be presented in the explanatory notes, together with the reasons that led to this decision and with a report in which the impact they have on the elements of assets, liabilities, but also on the financial position and the patrimonial result.

The reform in the field of accounting of public institutions begins with the real and well-understood correct recognition of expenditures, and a superficial application of accounting principles and rules leads to diminished transparency of operations, therefore it is necessary that the staff of the accounting department be highly trained. and extensive experience in the field. Transparency of accounting information exists only if decision-makers and the public are well informed about their financial implications. This is not always the case because financial reporting through financial means is often inadequate to social requirements. In this case, the government must support the independent audit of financial statements and budget execution to demonstrate how public money is used.

In recent years, in our country, a number of changes have taken place in the public sector in order to improve the management of public institutions, showing that the objective of comparability of information can only be achieved through accounting harmonization, which makes institutions accountable in making every decision public. Starting from the idea of designing a standardized legislative framework, common to the public sector, IFAC has created a comprehensive harmonization program to design a set of accounting standards for this sector and has supported their application at all levels. At European level, there is a need for European standards, and the European Commission is putting this idea into practice through Eurostat, which aims at accounting harmonization between Member States, and a number of supporting documents on heritage assets, infrastructure assets are being discussed in the committee military assets, segment reporting, social benefits.

The development of EPSAS is a complex process based on the IPSAS framework together with the particularities of the European legislative framework. The IPSAS framework is approached from three points of view, in terms of taking over within the standards, namely: standards that can be implemented with or without minor adaptations, standards that require adaptations before implementation and standards that need amendments for implementation (Adriana T. et al, 2017, p.4).

3. Research methodology

To highlight the evolution of financial reporting in the public sector, in developing this scientific research we approached the historical analysis by describing and fixing the events, in chronological order, which marked the evolutionary trend of the process of completing, transmitting and using financial statements.

The research objectives set for this paper are the following:

- identifying the need for local public administration research;
- highlighting the particularities of public institutions' accounting;
- analyzing the accounting principles applied in the public sector;
- calculating and interpreting the results of the degree of harmonization with the international legislative framework;
- explaining the need to reform the local public administration;

The author Constantin Enachescu relates in his work "Treatise on the theory of scientific research" that ideas do not appear by chance and cannot arise from anything, having something that is at their origin, coming from a source and being intelligibly related to it (Constantin E., 2005, p. 223). Starting from this teaching and analyzing the management system of methods, procedures and techniques used in the financial reporting activity, we used analysis and deduction as main research methods to achieve the proposed objectives and to draw conclusions.

4. Findings

Reviewing the specialized literature, regarding the extent to which the Romanian legislation incorporated the provisions of IPSAS, we found that the Jaccard coefficients present the highest degree of confidence regarding the measurement of formal harmonization. The following formulas are used to calculate Jaccard similarity and dissimilarity coefficients:

$$s_{ij} = \frac{a}{(a + b + c)}$$

$$D_{ij} = \frac{(b + c)}{(a + b + c)}$$

where:

s_{ij} – this element expressed the Jaccard similarity coefficient, representing the degree to which the sets of regulations i and j are similar;

D_{ij} - this element expressed the Jaccard dissimilarity coefficient, representing the degree to which the sets of regulations i and j are different;

a - this unknown expresses the number of elements found in both sets of regulations;

b - this unknown expresses the number of elements that are found in the set of regulations j, but not in the set of regulations i;

c - this unknown expresses the number of elements that are found in the set of regulations i, but not in the set of regulations j.

The Jaccard similarity and dissimilarity coefficients are complementary, the sum of their value being equal to 1. Within the determination of these coefficients, national and international regulations were analyzed, such as: Order of the Ministry of Public Finance no. 1917/2005, the Chart of accounts for public institutions in Romania, Law no. 500/2002 on public finances with subsequent amendments and completions, IPSAS 1 (Presentation of financial statements), IPSAS 2 (Statements of cash flows), IPSAS 3 (Accounting policies, changes in accounting estimates and errors) and IPSAS 10 (Financial reporting in hyperinflationary economies).

Table no. 1 Analysis of national and international legislation on formal harmonization

Standard	Number of items		s _{ij}	D _{ij}
	Usual	Analyzed		
IPSAS 1	46	102	0,451	0,549
IPSAS 2	1	24	0,042	0,958
IPSAS 3	7	17	0,412	0,588
IPSAS 10	3	6	0,500	0,500
TOTAL	57	149	0,382	0,618

Source: Tudor A.T., *Romanian public institutions financial statements on the way of harmonization with IPSAS*, Accounting and management information systems, vol. 9, no.3, 2010, p. 422.

The table above shows the degree of formal harmonization between the Romanian accounting regulations regarding the public sector and the international accounting standards. Analyzing the figures in the table, we notice that between IPSAS 1 and the regulations of our country there is a degree of similarity of 45.1%, being identified 46 common elements that refer to the notions in the definition, for the purpose of the financial statements regarding the formation of information about the elements of assets, liabilities, income, expenses or cash flows. Both Romanian and European regulations provide for the obligation to present data on financial position, financial performance, changes in the situation of net assets and cash flows and the preparation of explanatory notes that include a summary of accounting policies. For IPSAS 2, the similarity ratio is 4.2%, the common element of the two pieces of legislation is the obligation to present cash flows classified by operating, investing and financing activities. IPSAS 3 has a similarity coefficient of 41.2%, having

as common elements the definition of accounting policies and the situations in which their modification is allowed, but also a set of regulations referring to the quality of accounting information, it must be independent, relevant to users and complete. IPSAS 10 presents the highest degree of similarity among all the analyzed standards, although Romania is not part of the category of countries with hyperinflationary economy. The common elements between the two laws, which regulate the accounting activity in the public sector, refer to the definition of the book value of an asset, a debt and non-monetary elements.

5. Conclusions

Researching the literature in Romania, we can say that the public sector is not subject to literary analysis as detailed as the private sector, but lately there is an upward trend in terms of interest in the public sector. In this scientific approach, we approached as the main research topic financial reporting in public institutions. Analyzing the current state of knowledge we noticed that about two thirds of the studied articles are published in internationally recognized journals, journals belonging to the fields of accounting, economics, management, financial audit, public finance and public administration. In conclusion, it can be stated that knowledge of financial position and performance is an ongoing need for users of accounting information, representing the most important objective of accounting information provided by the financial reporting of the public system.

The financial statements to be prepared by public sector units must be adapted to the requirements of civil society, be able to provide the necessary information to the various categories of users and develop mechanisms for analyzing this information. In the case of the public sector, great emphasis is placed on the result of equity because they express the capital surplus or deficit, which is determined by each source of financing and the total, being calculated as the difference between revenues in the current financial year and expenditures in the same period.

The result of the patrimony, according to the legislation in force, is determined on the basis of the employment accounting, and the result of the budget execution is determined on account of the liquidity accounting principle, which realizes a situation of budgetary revenues and payments made from budgetary credits uncollected in the current financial year will influence the budget executions in the coming years in which they will be collected. The way in which the company evolves both socially and economically has forced the public sector to implement a new management system, which takes advantage of technical and IT opportunities and deepens the problems related to the formalization of a methodology for analyzing the financial statements in this taking the example of the private sector where economic and financial information is used and exploited to its full potential, responding to the needs of different categories of users.

6. References

- Bistriceanu, Ghe., 1992. *General Finance*, vol.I, U.R.A. Bucharest: Publishing House, p. 236.
- Brusca, I., Gomez, V., M., Montesinos, V., 2016. Public financial management reforms: The role of IPSAS Latin – America. *Public Administration and development*, vol. 36, no.1, pp. 51 – 64.
- Enăchescu, C., 2005. *Treatise on the theory of scientific research*. Iasi: Polirom Publishing House, p. 223.
- Măcriș M., 2009. *Accounting of public institutions*, Petroșani, p. 6.
- Tiron-Tudor, A., Crișan, A., 2017. IPSAS Elements found in the Romanian accounting regulations for the public sector - Formal harmonization. *Expertise and business audit*, no. 34, p.4.
- Tudor A.T., 2010. Romanian public institutions financial statements on the way of harmonization with IPSAS. *Accounting and management information systems*, vol. 9, no.3, p. 422.
- *Law no. 500/2002 on public finances*, published in the Official Gazette no. 597 / 13.08.2002, with subsequent amendments and completions.