

## Considerations About the Application of Accrual Accounting on the Public Sector in Romania

Cristina Elena Georgescu

“Ovidius” University of Constanta, Faculty of Economic Science, Romania

[cristina.georgescu95@gmail.com](mailto:cristina.georgescu95@gmail.com)

### Abstract

*The scientific approach pinpointed in this paper aims at outlining the serious changes that have occurred in Romania regarding the accounting system operating in the Public Sector. These evolutions have been triggered by the demand to adjust the whole entire system to the latest circumstances dominating the socio-economic, political and legal landscapes. I have undertaken a normative research steered at the investigation of the implementation process of the “International Public Sector Accounting Standards” (IPSAS) on Romanian grounds (which was underlined by the recent evolutions occurring in accounting laws and regulations).*

**Key words:** accrual accounting, “International Public Sector Accounting Standards”, accounting reform, principles, accounting profession

**J.E.L. classification:** M41, M48

### 1. Introduction

Public accounting ought to outline a clear and eloquent image of the status characterizing the execution of the general consolidated budget and its components, the data demanded for the fulfilment of certain specific necessities of public bodies and the data it furnished to the bodies with relevant prerogatives.

The accounting information must be credible and relevant to the users’ decision-making needs; more specifically, it should provide an accurate landscape of the current economic outcome and a concrete outline of the financial status of the public institution, it must be neutral, prudent and complete in all the significant respects.

In Romania the legal framework at national level has been enriched over time through the gradual assimilation of the elements specific to accrual accounting.

A number of normative acts, designed to regulate the financial statements of public institutions, have been constantly updated in order to respond to the specific prerequisites of the Romanian economy and, at the same time, the evolutions in the international landscape, notably those triggered by the enforcement of IPSAS.

### 2. Research methodology

Recently, the Romanian accounting system has been modified dramatically, undergoing a large and thorough reform process, vital to the adjustment to the late economic, political, legal and social circumstances. Among its many other purposes, this reform process targeted at the enforcement of international accounting standards in public bodies. Can the achievement degree of this purpose be quantified? Is it possible to identify the modifications of the Romanian laws and regulations in the field that have been performed in order to attain this objective? What were the advantages, and also the disadvantages of such an approach? This is what we intend to achieve throughout this study. In order to provide answers to the above questions, we have resorted to a normative type of research through which we have performed an investigation of the implementation mode of the “International

Public Sector Accounting Standards” (IPSAS), on Romanian grounds, also in connection to the latest adjustments of accounting laws and regulations.

### **3. Theoretical background. International Public Sector Accounting Standards – IPSAS**

For a quite long time, public bodies have not been required to furnish clear, pertinent and reputable data, (double-checked and) ascertained by external auditors. Nonetheless, one of the major roles of public accounting is to safeguard the comparability of data, and the clarity and pertinence of financial information and genuine accountability. To address this demand for information in the public system and the requisite regarding the provision of comparable, clear and pertinent pieces of information, IPSAS standards have emerged and developed.

Since 1996, the “International Public Sector Accounting Standards Board” (IPSASB) has been formulating international accounting standards destined to public bodies; in its turn, during the drafting process, this international Board took into account the “International Financial Reporting Standards” (IFRS). However, it has also designed and expanded upon ‘an original doctrine’ that pinpointed and dealt with a vast array of issues emblematic of the public ‘arena’, with the aim of developing financial reporting standards based on accrual accounting to be used by the public institutions around the world.

However, given that in most countries public accounting is based on cash-basis accounting, IPSASB also developed a standard based on this type of accounting, as it wanted to make the move towards accrual accounting easier.

IPSAS standards establish the criteria for recognizing, assessing, describing, and presenting information about transactions and events in financial statements with a general purpose.

These accounting standards are reliable, established independently, being upheld and reinforced by decision-making bodies, such as governments, or by influential ones (often involved in the decision-making process) i.e., professional accounting organizations and various international organizations.

Currently, 41 IPSAS standards have been adopted; the first 21 (i.e., IPSAS 1 - IPSAS 21) are based especially on the IFRS standards. Furthermore, other distinct standards have been designed for the public sector (for instance, IPSAS 22, 23, 24), and, meanwhile, a standard has been created according to the cash method of accounting (cash-basis accounting) in order to introduce the accrual accounting method.

Furthermore, in 2007 11 IPSAS standards were revised (IPSAS 1, 3, 4, 6, 7, 8, 12, 13, 14, 16, 17) in order to take into account the changes which occurred in the IFRS standards during the 1996-2006 period.

Comparing the first 21 IPSAS standards with the IFRS standards they were inspired from, we can list the following differences: in the IPSAS standards there are additional comments compared to IFRS standards, which have the role of clarifying the applicability of the standards in public institution accounting, some terms used in the IPSAS standards have different definitions from the IFRS standards and, in some situations, the jargon employed in the IPSAS differs from the one from the IFRS standards.

We can also list some of the most significant changes imposed by the IPSAS standards:

- the employment of the asset principle, demanding the registration of noncurrent assets and their yearly amortization;
- the employment of the precautionary principle, which demands the confirmations of provisions, including those regarding pensions;
- the submission of a collection of financial statements, including the following documents: income statements/profit and loss account, cash flow statements, statements of changes in net assets/equity, statements of financial position/ balance sheets, annexes to financial statements;
- the changeover from cash-basis accounting to accrual accounting.

#### 4. Findings. Public accounting reform in Romania

In the context of Romania's accession to the European Union, in order to fulfill its commitments of convergence and implementation of the *acquis communautaire*, the Romanian accounting normalizers introduced measures aimed at supplementing the cash-basis accounting with the accrual accounting. If we perform an analysis of the public accounting reform in Romania, we can say that through the gradual assimilation of the elements specific to accrual accounting, the legal framework at national level has been enriched over time.

Aimed at adjusting public accounting in conjunction with the IPSAS standards and with the accounting directives established at the EU level, the first regulation was represented by “Order no. 1461/2004 on the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof”, which was implemented for a year, as an experiment, by several public institutions, beginning with January 1, 2005. The conclusions of this implementation experiment and the recommendations forwarded by other public institutions triggered the design of several amendments and completions to the aforementioned Order and, consequently, all the Romanian public institutions were required to enforce the provisions of Order no. 1917/2005, beginning with January 1, 2006.

As already mentioned, this Order was focused on the adjustment of the Romanian public accounting, based upon the accounting directives at the EU level; additionally, it was designed to safeguard the observance and employment of the IPSAS standards within the Romanian public accounting system. Order no. 1917/2005 complies with the prerequisites of the accounting directives at the EU level, which highlights the necessity to furnish a pertinent and genuine image of the assets, net assets, liabilities, income statement and economic outturn account.

Moreover, in consonance with this Order, the collection of financial statements that ought to be furnished and strengthened by Romanian public bodies closely meet the demands forwarded by the IPSAS. Consequently, the quarterly and annual financial statements designed by public bodies comprise documents such as: the balance sheet, the cash flow statement, the economic outturn account, the statement of changes in net assets/ equity, the annexes to the financial statements which encompass accounting policies and explanatory notes, budgetary execution accounts (see Order no. 1917/2005).

The financial documents were the basis for the convergence of the public accounting in Romania with the IPSAS standards, creating the interface between the internal and the external, the national and international users.

We can say that this order has been a reference point in the evolution of public accounting. Subsequently, the order was amended during several successive stages, the last amendment being made by “Order of the Minister of Public Finance no. 1176, of January 26, 2018, for amending and supplementing the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof”.

In terms of drawing up and submitting the financial statements of public institutions, over time, a number of normative acts have been issued, designed to regulate and update this area. These provisions have been constantly updated in order to meet the specific requirements of the Romanian economy and, at the same time, the evolutions featuring in the international landscape, in particular those triggered by the application of IPSAS. This entailed the issue by the Minister of Public Finance (on April 28, 2017) of “Order no. 640/2017 approving the Methodological Norms on the elaboration and submission of quarterly financial statements of public institutions, as well as certain monthly financial reports in the year 2017, amending and supplementing the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof approved by the Order of the Minister of Public Finance no. 1917/2005, as well as amending and supplementing other methodological norms in the field of public accounting”.

Another vital landmark in the transformation and upgrade of public accounting was marked by the set of changes operated in 2019 in the accounting and the budgetary system of public institutions related to the FOREXEBUG system, a change recorded in the “Order of the Minister of Public Finance no. 128/2019 on amending and supplementing the Order of the Minister of Public Finance

no. 517/2016 for the approval of procedures related to some modules" which are part of the operating procedure of the FOREXEBUG national reporting system. According to this order and from 2019, the public institutions that use the national reporting system, regulated by GEO no. 88/2013, submit their individual budgets to the FOREXEBUG national reporting system, while submitting to the territorial units of the State Treasury their budgets, on paper, disseminated and authorized under the law, by the hierarchically superior authorizing officer or by the local council, as appropriate, which formed the basis for the provision of the individual budget in electronic format.

## 5. Accounting principles - particularities

In order to ensure a truthful image regarding the situation of the general consolidated budget's components execution, the information required for the specific needs of the public institutions and the information it provides to the bodies with relevant prerogatives, public accounting must comply with the unitary rules and regulations, which are generally valid, of general accounting, as well as its principles.

We will analyze hereafter the particularities of applying the general accounting principles to the activities that produce public goods and services and, in this context, the specificity of applying the accounting principles in order to recognize the respective operations in the financial-accounting flows related to the public financial system.

*The Principle of Prudence* enforced in public accounting does not make room to the underestimation of revenues and overestimation of expenditures in the budget preparation process and especially in the budget execution process. This principle must manifest itself particularly with respect to the appropriate evaluation and registration of the budgetary entitlements of public bodies and the elements belonging to the general consolidated budget. Under the Order no. 1917/2005 issued by the Minister of Public Finance, the Principle of Prudence assumes that the assessment must take into account all the commitments arising during the current or the previous fiscal year, even if they become evident only between the balance sheet's date and the date of its submission, and must take into account all the depreciations.

*The Principle of the Permanence of Methods* requires the continuity of the rules and norms regarding the method of assessment of the revenues and the criteria for establishing the budgetary credits, ensuring the comparability in time of the information regarding the structure of the budgets, especially from one fiscal year to another.

*The principle of accrual-based accounting* determines the outset of the budget execution process at an established date, its completion at another definite date; ergo, during this period, it declines the registration of revenue and expenditure originating from other fiscal years. This principle is underlined by the autonomy of the fiscal year and specialists also call it the principle of the adaptability of the accounting information to the system of budget execution used, i.e., "management" or "fiscal year". By applying this principle, public entities have adopted a system according to which there is an annual record of budgetary credits, cash payments and collection to the state budget, the state social insurance budget, local and special funds budgets. This system requires the validity of the budgetary credits opened and allocated only within the respective fiscal year. Furthermore, cash payments can be made only within the limit and the validity period of the approved and allocated budgetary credits. In terms of revenue, only those payments collected during the year are valid, while those collected after December 31 are highlighted during the following fiscal year.

*The Principle of Non-Compensation* is applied in public accounting, as follows: no payments can be made directly from collections, all revenues are recorded in the budget and for any expenditure there is the obligation of approval. There are some exceptions to this rule, especially when it come to extrabudgetary and special funds; nevertheless, these do not impair the enforcement of the general principle.

*The Principle of Intangibility of the Opening Balance Sheet* covers only a part of the issues faced by public accounting, having in view that, for instance, as far as public funds are concerned, the revenues due in the current year, but collected during the following year are recorded as revenues in the year in which they are collected. Furthermore, the funds approved in the annual budgets and not used within that year lose their validity at the end of the year. Only in special situations, such as the

budgets based on extrabudgetary and special funds, which are allowed to carry forward the execution balance from the previous year, could we talk about a certain intangibility of the opening balance sheet.

*The Principle of the Prevalence of the Economic over the Juridical* requires the same rules as in general accounting, i.e., the accounting information presented in the financial statements must be credible and must respect the economic reality of the events or transactions, not just their juridical form.

Deviations from the general principles set out above may be made in exceptional cases, provided that they are presented in the explanatory notes, as well as the rationales supporting them, and an estimation of their outcome on the value of the assets, liabilities, financial position and economic outturn.

The basic principles of accrual accounting must be followed when drawing up public accounting policies. Accounting policies must be drawn up in order to warrant that the financial statements furnish eloquent data, which is credible and relevant to the users' decision-making needs, in the sense that it must furnish an accurate and pertinent outline of the economic outturn and of the financial status of the public institution, it must be neutral, prudent and complete in all the significant respects.

## **6. The Role of the Professional Accountants and Auditors in Public Accounting**

Accountants' role has evolved along with the evolution of accounting, from a technique used in recording the trade deals, to means of control, documentary evidence and social stakes. Over time, the delegation of the responsibilities related to the production of information provided by accounting has set the premises for the emergence of an independent accounting profession, with an increasing importance and the aim of legitimizing the information released by entities.

Having in view that the accounting profession is organized based mostly on the accounting system it refers to (being wholly connected to it), which is often a national one, the elements and the historical perspectives that influenced the structure and aspect of the present national accounting systems have also decisively modelled the design and evolution of the accounting profession.

The accounting profession covers an extensive area, with professionals working in industry and commerce, as freelancers, or in the public sector. In this area, they assume various roles, among which financial manager, member of the team which configures the system of financial information production, internal auditor, external auditor, or accounting expert.

The Body of Expert and Licensed Accountants of Romania (CECCAR) represents the Romanian accounting profession. Nonetheless, the accountants employed in Romanian public institutions are not required to be licensed accountants. In addition, an economist employed in a Romanian public institution also qualified as an expert accountant is not entitled to visa and seal, i.e., s/he cannot practise the liberal profession s/he should be entitled to, from CECCAR's perspective. Only those who hold the position of accountant-general or financial manager of the public institution are required to hold a higher education degree in economics.

Over time, CECCAR has intended to organize training/ refresher courses and has published professional guides for the accounting activities performed in public bodies. Sadly, these actions did not enjoy the expected success, their failure being presumably entailed by the fact that the hiring process of accountants (and not only) in public bodies is effectuated under the regulations drawn up by the Ministry of Public Finance, whereas CECCAR has no involvement in this process.

We consider it important to involve professional, expert and licensed accountants in the accounting system of the Romanian public sector and we adhere to Hepworth's vision, which professes that “The accountancy profession must have the capacity and be prepared to be interested in and involved with the public sector, because not only is the accountancy profession the expert in accounting standards but it has traditionally trained financial managers for the private sector” (Hepworth, 2003).

A successful implementation of accrual accounting in the public sector requires “co-operation by the accountancy profession in the development of accounting standards for the public sector and to become involved in the application of those standards and the monitoring of their implementation” (Hepworth, 2003)

In the Romanian economic landscape, the members of the accounting profession cannot take part in the drawing up process of (and expansion upon) the accounting laws and regulations destined to public bodies. Unfortunately, this ‘privilege’ is enjoyed exclusively by the Romanian Ministry of Public Finance. In its turn, CECCAR is left aside when it comes to the performance of activities focused on the operation and monitoring of the enforcement of accrual accounting; hence, the members of the accounting profession were not offered the opportunity to critically and thoroughly examine and even evaluate the process (and progress) centered upon the employment of accrual accounting in Romania’s public bodies.

This drawback is also signaled by Hepworth’s ideas (to which we adhere entirely) pinpointing that:

“Successful implementation of accrual accounting depends heavily upon the understanding of, and willingness to support, the system by the external auditor of central government. (...) the external auditor should be involved in the process from the outset. That may require that the organization, career structure and training of auditors should be significantly changed as well as the audit approach and mandate. (...) That may require the appointment of qualified accountants to the staff of the central government auditor, rather than relying upon the more traditional training of auditors” (Hepworth, 2003).

The internal audit, through the activities it carries out, has become an essential component in the structure of any modern organization, adding value to the organizations in which it operates. Its purpose is to ensure greater efficiency through a more appropriate use of human and material resources, as well as better collaboration between the various departments of an entity.

In Romania, internal audit missions are in charge with the drafting and provision of the financial documents (statements) required for examination by the Court of Accounts (responsible for the performance of external audits). Although external audits do not occur annually, but every two or three years, the discharge is performed by the management of the respective institution every year. These missions focus mainly on verifying the legality of expenditures and the observance of legal procedures; they also analyze – however, to a lesser extent – the reasoning employed in asset assessments or estimations, diligence, vigilance, materiality, etc. Notwithstanding that the external auditors carrying out activities at the Court of Accounts are not required to hold CECCAR or CAFR membership, they are required to participate in refresher courses, in order to fulfil the advanced prerequisites for the specificities of accrual accounting in public entities, which simplifies the correct and eloquent employment of new concepts.

## 7. Conclusions

The employment and pursuit of accrual accounting in Romanian public bodies has involved a lengthy process, taking into account that this evolution has entailed much more than a mere change in accounting techniques.

The literature is quite scant as far as the accounting system in Romanian public bodies is concerned, and the research that has been carried out so far does not tackle thoroughly the shortcomings entailed by the enforcement of accrual accounting in public entities, given the distinct socio-economic or political traits of our country.

Overall, the employment of accrual accounting in public entities has followed the correct path of enforcement in Romania, and in the future, its objectives will be fully met.

In our opinion, the specialists in the field have been and still are permanently interested in updating the legislative framework regarding public institutions’ accounting. We consider that the changes in this area have been well-founded, being determined by the need for improvements in order to optimize this process, obtain positive effects and, especially, standardize specific activities, due to the international status of our country.

## 8. References

- Hepworth N., 2003. Preconditions for Successful Implementation of Accrual Accounting in Central Government, *Public Money & Management*, volum 23, issue 1, pp.37-44
- Order of the Minister of Public Finance no. 1461/2004 on the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof, published in the Official Gazette no. 1022/05.11.2004
- Order of the Minister of Public Finance no. 1917/2005 on the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof, published in the Official Gazette no. 1186/29.12.2005
- Order of the Minister of Public Finance no. 517/2016 for the approval of procedures related to modules that are part of the operating procedure of the national reporting system FOREXEBUG, published in the Official Gazette no. 307/21.04.2016
- Order of the Minister of Public Finance no. 640/2017, for the approval of the Methodological Norms on the preparation and submission of quarterly financial statements of public institutions, of monthly financial reports, on amending and supplementing the Methodological Norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof, approved by Order of the Minister of Public Finance no. 1917/2005, as well as for amending and supplementing other Methodological Norms on the field of public accounting, published in the Official Gazette no. 336/09.05.2017
- Order of the Minister of Public Finance no. 1176/2018 on amending and supplementing the Methodological Norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof, approved by Order of the Minister of Public Finance no. 1917/2005, published in the Official Gazette no. 93/31.01.2018
- Order of the Minister of Public Finance no. 128/2019 on amending and supplementing the Order of the Minister of Public Finance no. 517/2016 for the approval of procedures related to modules that are part of the operating procedure of the national reporting system FOREXEBUG, published in the Official Gazette no. 70/29.01.2019