

Perception, Regulation and Reality Regarding Provisions in Public Institutions Accounting in Romania

Iuliana Cenar

„1st of December 1918” University of Alba Iulia, Romania

cenar_iuliana@uab.ro

Abstract

Obviously, any research topic can be approached in a multitude of aspects. Among these, for the issue of provisions in the accounting of public institutions in Romania, we selected perceptual, normative and applied aspects. The aim is to identify opportunities to improve the quality of accounting information by focusing on risk analysis, making estimates, exercising professional judgment, with an emphasis on prospecting, confrontation with practical reality.

Among the questions we are trying to find an answer to, we identified the following: does the creative side of the accounting of provisions affect public institutions as well?; what do national and international normative patterns imply for the accounting recognition of provisions?; Is the accounting profession prepared for the new challenges focused on identifying and monitoring risks, estimates and forecasts? In order to answer these questions, we resorted to the analysis of the specialized literature regarding the perception on provisions, of the national and international regulatory framework and the practical reality of public institutions in Romania.

Key words: provisions, public institutions, accounting, reality

J.E.L. classification: M41

1. Introduction

The depth finds refuge in simple things. Any seemingly trivial subject can generate complex investigations. The proposed subject fits in this direction, without claiming to approach the exhaustive side of its exploration.

The controversies, positions on the subject of provisions could even begin with the perception on knowledge (which consists of “information, descriptions or skills acquired through experience or education” being related to the “awareness of human beings”), its delimitation from the accumulation of knowledge (involving “complex cognitive processes: perception, communication, association and reasoning” (<https://ro.wikipedia.org/>)).

Evidently (and) this type of approach is affected about subjectivness because everyone „perceives reality through the lenses of their own distorted values and” (Goleman, <http://stagiipractica.roger-univ.ro/>).

The objective proposed is the extension of the exploiting area of possibilities to improve the quality of accounting information through a better capitalization of the data regarding provisions

2. Theoretical background. The panoptic image of provisions. Conceptualization and positioning in the accounting area

If in the realm of profit-generating entities the subject of provisions as a tool of creative accounting or a form of accounting engineering it is treated quite a lot by the specialized literature, it is not the same case regarding the segment of public institutions.

”The offer of accounting information is influenced by economic, political, social, and legal factors, by the conflicts of interest between different parties, as well as by the way of conceptualization and normalization of accounting.” (Berheci, 2009), but also by the progress of

the information technologies which contribute to the optimization of the consumed time with data processing and allocating time to elaborate analysis or support services for decision making.

At the same time, it is the effect of spreading the call for professional reasoning in accounting, the concern to identify the causes that negatively influence the communication process and ways to avoid malfunctions in their provision, requiring an approach by analyzing the users' reactions.

Briefly and taking into account general coordinates, the issue of provisions is addressed in the literature, especially with reference to the entities carrying out economic activities generating profits, but which we consider valid for public institutions, some of the perceptions being the following:

- provisions represent one of the tools for operating instruments used by creative accounting (mostly in the specialized literature), on which there are different approaches, for example from being considered a financial engineering not necessarily with negative connotations on the entity (Ionescu, 2006; Munteanu V. *et al*, 2011; Moisescu, 2016; Voinea, 2013; Mihăilă *et al*, 2015), an instrument in innovating accounting which contains alternative accounting as a result of using alternative accounting treatment (Bunget *et al*, 2012), a form of legal and moral fraud (Groșanu A, 2013) of truncating/modelling the benefits using gaps and regulatory flexibility etc. Creative accounting is generated by a serie of factors and is transposed by a serie of practices (Bogdan *et al* 2006; Mihăilă *et al*, 2015; Dingă, 2008);

Creativity is actually “intelligence when having fun” (Einstein) and can be limited by imposing perfection. In other words, we have a choice between being creative in a competitive society by trying to overcome the fear of failure or striving to be as close to perfection as possible. This is also a matter of what one's option is (<https://www.iqool.ro/puterea-creativitatii/>).

Concerning this idea, we meet the opinion that “accounting options have been around for a long time and do not constitute creative accounting, the subjectivity inherent in valuation is inevitable and has always existed, only a few financial mechanisms generate true creative accounting” and “which are related to accounting imagination used to translate legal, economic and financial innovations for which there are no standardized accounting solutions at the time of their launch, as well as the fact that the arrangements arising from this financial engineering are initiated according to their impact on the balance sheet and the result (Munteanu *et al*, 2011)

Creative accounting is similar to accounting engineering (Ionescu, ???), accounting engineering is only one component, the negative one, fraudulent of creative accounting (Bunget *et al*, 2012) which has the role of mislead, intentionally”, being activated “when you want to publish erroneous information.” We consider that there is a noticeable difference between the two characteristics, in the sense that the intention to mislead does not necessarily mean that the information is erroneous. The other component is the innovative accounting in which the alternative accounting resulting from the use of alternative accounting treatments is found).

Another stage of creative accounting refers to two successive components, namely legality and moral fraud (which respects the letter of the law but not the spirit of the law, followed by real fraud, for which “the step is small and invisible” from the previous form (Groșanu, 2013)

- provisions require the use of estimates and forecasts, they are supported by the principle of prudence and that of connecting expenses to income in accounting (not recognized in national legislation, but respected in practice) (IAS 37; Borfoaia, 2009; Suer, 2014), representing in the same time the effect of exercising professional reasoning (Herbei *et al*, 2015; Mărculescu *et al*, 2012,) and a management instrument (Brijesh, 2014; Costuleanu *et al*, 2013; Popa, 2012; Zuca *et al* 2012 etc.) with arguments and counterarguments (Moisescu, 2016).

Through provisions, managers have the opportunity to model accounting figures, to choose the most convenient accounting policies and treatments, *which do not necessarily translate into a true and fair view*.

- provisions constitute the effect of the existence of niches in the accounting rules, of the accounting options and of the freedom to assess the risks, expenses or losses whose object is determined with precision, but whose realization and size are uncertain, thus creating the possibility of their overestimation or underestimation.

- provisions are associated with a series of risks, losses and uncertainties, as well as some implications of reporting in accounting, (Dicu *et al*, 2016). Risk describes the variability of the results that were obtained;

- at public institutions, according to national regulations, provisions may be constituted for: litigation, fines, penalties, compensation, damages and other uncertain debts, guarantees granted to customers, litigations from salary rights won in court, guarantees which will be enforced by guaranteed loans (capital rates due by the following year, estimated to be paid by the guarantor), others (OMPF 1917/2005, updated). To these, by reporting to IPSAS 19, we add restructuring provisions, environmental provisions (provisions for decommissioning, dismantling, depollution or site restoration).

3. Research methodology

Our research is in line with the current trend of accounting theory and practice concerns, one of the arguments being that the “management’s focus on risk estimation and reporting has led to a renewed focus and concern for contingent debt and provision reporting” (Schiff *et al*, 2012).

The hypothesis of the research, which derive from the objective mentioned above, are the following:

- It is necessary to create a conceptual and typological provision for public institutions;
- The true image demands the need to establish provisions in the accounting of public institutions;
- Accounting recognition of provisions contributes to improving the quality of financial reporting of public institutions;
- The dissemination of information on provisions may influence the users of accounting information in the context in which the principles of governance are becoming more present in the area of public institutions.

The concrete ways of the fundamental, descriptive approach of the subject were the following: reviewing the specialized literature on provisions, studying the national and international legislation, analysis and critical evaluation of the financial-accounting documents (respectively the data concerning provisions in audit balances and accounting reporting documents).

4. Findings

Professionalism, reasoning, conventionality in searching the reality in accounting

Although we are in the era of computers, of advanced technological rigor, where data are taken over and processed with the utmost accuracy, still “the accuracy of economic and financial data remains dependent on the reporting framework and techniques for manipulating results” Popescu, 2006).

Some components of the structures specific to accounting require estimates or forecasts, and their value is influenced by the optimism or pessimism of the one who exercises professional reasoning in accounting. Through the estimates, opinions are expressed and value quantifications are made more or less plausible depending on the time span considered, in conditions of uncertainty.

The provisions are on the one hand the result of the “best” estimates of future debts but also a means to exploit, not necessarily in a negative sense, but on the contrary, the optional character of their constitution offered by the normative framework: “according to 1917/2005, point 3.2. Public institutions may constitute provisions. Under a value of appearance, they cannot surpass the necessary amounts to extinguish the current obligation when the balance sheet was realised.

Also, as I mentioned before, they are required by the precautionary principle. Prudence refers to the impossibility of recognizing asset increases or debt reductions (Dicu *et al*, 2015). It presupposes “a reasonable assessment of the facts, in order to avoid the risk of transferring the uncertainties of the current period in the future. The reasonable character of the assessment obviously affects the objectivity characteristic of the accounting information, and the facts/events can target both the past and the future with incidents on the present through the annual financial statements.

The creation of provisions has an obvious effect on the patrimonial result, in the sense of its diminution in the financial year in which it is created and of the increase when it is resumed at income. How accurate is the assessment of the probable debt when we make provisions? What

about its enforceability? How is the decision objectively justified which is the subject of that provision.

Schematically and by reference to the provisions of the normative framework, the accounting recognition of the provisions presupposes the fulfillment of the conditions mentioned in the scheme below:

Scheme no. 1 Conditions to recognize provisions

provisions	The existence of a current obligation generated by a previous event;	<ul style="list-style-type: none"> • legal (from a contract or a legislation) • implicit (previous practices, written policies, specific declarations which indicate assuming and honoring certain responsibilities)
	Probability to exit the necessary resources to honor the obligation Possibility to realize a believable estimation of the obligation	

Source: Author’s contribution

„Accounting instrumenting of provisions is a phenomenon involving the use of the imagination of professionals in this field, sometimes risking to go beyond the limits of legality, (Ciocan Claudia-Cătălina, True and Fair View: Incentive or Inhibitor for Creative Accounting?, Ovidius” University Annals, Economic Sciences Series Volume XVII, Issue 1 /2017, pp. 451-455).

Some provisions may have a negative impact negativ on the image of the entity (in the sense that users of accounting information can identify the losses to be faced by the institution), others, a positive one (indication of transparency, risk-taking, objectivity).

What is certain is that regardless of the effects, they must be brought to the users’ knowledge in order to maintain their credibility by providing information that meets all qualitative characteristics (relevance, exact representation, comparability, intelligibility, verifiability, opportunity), but also for reasons related to the professional deontology of each producer and provider of financial-accounting information and not only. Establishment and reporting should also take into account the changes that have taken place at the normative level in the sense that the finely integrated reporting (which contains through the non-financial statement also aspects related to the environment, social and connected to the employees, as well as on respecting human rights, fighting against corruption and bribing (<https://eur-lex.europa.eu/legal-content/RO>), is gaining more and more ground in Romania as well, and through the accounting instrumentation of provisions, this orientation must be taken into account.

What is the reality in the accounting practice of some public institutions in Romania?

At the level of the school units, provisions were set up for litigations from salary rights won in court (GEO 71/2009; GO 17/2012), differentiated by terms of exigibility (under 1 year, respectively over 1 year). Obviously, they have repercussions, through centralized accounting, on the financial statements of senior loan officers, administrative-territorial units, including for the 2018-2019 school year, respectively county school inspectorates, for salary rights that will be earned in court after September 1st 2019, as a result of the modification of the way to finance the salary rights, in the sense of their support from the state budget (law 201/2018, point 6, which amends article 104, paragraph (2) of the national education law no. 1/2011).

Although OMFP 416/2013 stipulates that the amounts related to outstanding payments and litigations with due or uncertain value to be recorded in the accounts as provisions, we did not find such situations in the accounting practice of the analyzed public institutions... nor other categories of provisions constituted by the 57 public institutions under study.

Beyond the categories of provisions expressly mentioned by the national regulatory framework, it is possible to set up at the level of public institutions to be identified as possible at least with the following: provisions for restructuring (including for the benefit over the termination of the employment contract, according to IPSAS 19), for reshaping the social pyramid, for the benefits of

the employees on untaken rest leave (for example, retirement allowances may be granted established or not on the basis of actuality calculations depending on the policy of the institution, payments for untaken rest leave), provisions for the environment.

Provisions for restructuring may be established as a result of the existence of a program planned and controlled by management and which significantly modifies either the scope of the activity performed by the entity (giving up to an segment of activity or a service, moving up an activity), or the manner in which it carries out the activity (changes in the management structure, reorganizations that have a significant impact on the nature and purpose of the activities of the entities (IPSAS 19, pct. 18, 81). The restructuring decision must be communicated to those affected by this measure before the reporting date.

Provisions for reshaping the social pyramid refer to the costs of dismissal, recruitment and training of staff so that a strongly unbalanced age pyramid (the base being represented by older staff and the top by young staff) to turn into a distributed curve according to a normal law.

Environmental provisions can be set up, for example, when there are draft regulations requiring the removal of a contamination, the existence of a previous conduct to honor the published environmental policies.

The possibility of reimbursing expenses necessary to settle a provision is not regulated at a national level

Depending on the structure of the recognized provisions, the directions of interest and the preoccupations of the public institutions can be appreciated for:

- relations with third parties in terms of legal incidents generated by litigation, the quality of goods delivered, work performed, services provided (litigation, guarantees granted, contracts with a fee);
- environmental protection, as a form of assuming responsibility towards future generations (decommissioning of tangible assets, site restoration) although "identification and data collection in respect of environmental obligations can be difficult";
- human capital (termination of employment, pensions and other similar benefits)

The presentation of information on provisions through the financial statements is an indication of the risks assumed, the uncertainties that hover over the activity, as well as the possible losses of the entity, but also the recognition that they exist, being also a means of covering/diminishing through income. of the estimated losses when they actually occur.

The theory sounds good, we say, but even at the European level it is appreciated that PSAS 19 Provisions, contingent liabilities and contingent assets' might prove to be difficult to apply in practice and "new information flows may need to be defined and processes implemented to identify existing and potential obligations, collect data and measure government obligations. This should be part of a good year-end closure process" (<https://circabc.europa.eu/sd/>).

5. Conclusions

The provisions are attached to the idea of modeling the accounting result of the entities, a reason for which, in this context, we wonder how important the provision policy is for the public institutions and what would be the reason for resorting to such an approach? What are the reasons for using such a tool?

Including for public institutions we identify at least the following reasons: the refusal to admit failure, the freedom of the accounting profession, the exercise of professional reasoning, etc.

In our opinion, good faith and professionalism are needed in the realization of the finished product of accounting - financial information under the auspices of the true image.

We find that there are also categories of provisions that are oriented towards sustainable development, such as restructuring, for the reshaping of the social pyramid, related to human resources, environmental protection, etc.

Also, the professional reasoning and the changes that information technology produces in the field of the accounting profession attract its moral obligation to investigate in a professional manner niches that were once blocked by the workload and obtaining financial reports. Creativity, intelligence must not be obstructed, as long as it does not contravene any norm. On the contrary, the valences of freedom offered by the exercise of professional reasoning must be promoted, the

orientation towards progress, the exploitation of the facilities offered by knowledge and modernism in order to be the best in your field of competence.

By approaching the reality regarding provisions in the accounting of public institutions, we consider validated the previously formulated research hypotheses, respectively that it is necessary to create a conceptual and typological framework on provisions for public institutions correlated with the particularities of their object of activity, provisions must be recognized in the public services accounting in Romania, because it contributes to improving the quality of financial reporting.

A different mentality, a different way of seeing the profession ... professional may influence the users of accounting information disclosed by public institutions and can contribute to improving their management.

Any entity must achieve a good management risk, respectively to “identify vulnerabilities and threats and to elaborate minimizing measures of their impact on information resources”

How should a professional act in relation to the sizing and accounting recognition of provisions? To indulge in a more comfortable reality (not necessarily without the burden of the workload due to the redundancy of various documents) or to try to identify and implement new approaches to accounting information that would be a measure of the response to the multiple challenges ahead. the profession, today, perhaps more than ever.

This last positioning is desirable, however, unfortunately the connivance of the provisions with the professional reasoning remains for the time being a desideratum that still has to cover an considerable distance until it becomes reality.

6. References

- Berheci, M., 2010. *Valorificarea raportărilor financiare (Capitalization of financial reporting)*, Bucharest, CECCAR Publishing House.
- Bogdan V., Balaciu D., 2006. Practici de contabilitate sub amprenta creativității (Accounting practices under the imprint of creativity). *Annals of the University of Oradea*, pp. 442 - 447, [online] Available at: <<http://steconomiceuoradea.ro/anale/volume/2006/finante-contabilitate-si-banci/74.pdf>> [Accessed 10 September 2020].
- Borfoaia T.A., 2009. Evaluarea incertitudinilor în contabilitate prin intermediul provizioanelor (Assessing uncertainties in accounting through provisions). *Public Finance and Accounting Review*, no. 5, pp. 12-15.
- Brijesh, Y., 2014. Creative accounting: an empirical study from professional prospective. *International Journal of Management and Social Sciences Research*, vol. 3, no. 1, pp. 38-53, [online] Available at: <<https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.407.3808&rep=rep1&type=pdf>> [Accessed 10 November 2020].
- Bunget, O., Dumitrescu, A-C., Deliu D., 2012. Contribuții la definirea conceptului de contabilitatea creativă (Contributions to the definition of the concept of creative accounting). *Contabilitate: provocări actuale și aspirații pentru viitor*, ASEM Publishing House, Chișinău, 2012, pp. 51-56.
- Ciocan, C.-C., 2017. True and Fair View: Incentive or Inhibitor for Creative Accounting?. *Ovidius University Annals, Economic Sciences Series*, Volume XVII, Issue 1, pp. 451-455, [online] Available at: <<http://stec.univ-ovidius.ro/html/anale/ENG/2017/Section-V/11.pdf>> [Accessed 9 September 2020].
- Costuleanu, C.L., Dumitrescu, D., Bobițan, N., 2013. *Creative Accounting During Technological Change*. Scientific Papers, vol. 56(2), [online] Available at: <[http://www.uaiasi.ro/revagrois/PDF/2013-2/paper/2013-56\(2\)_58-en.pdf](http://www.uaiasi.ro/revagrois/PDF/2013-2/paper/2013-56(2)_58-en.pdf)> [Accessed 7 September 2020].
- Dicu, M.R., Mardiros, D-N., 2015. Considerations Regarding the Implications of the Provisions Reporting in the Context of Current Accounting Regulations. *Financial Audit Review*, vol. 13, no. 11, pp. 105-115.
- Dinga, F., 2008. Considerații teoretice privind evaziunea fiscală vs fraudă fiscală (Theoretical considerations regarding tax evasion vs. tax fraud). *Financial Studies Review*, no. 4, pp. 20-50.

- Groșanu, A., 2013. *Contabilitate creativă (Creative Accounting)*, Bucharest, ASE Publishing House.
- Groșanu, A., 2013. Vânzările bunurilor urmate de returnul acestora – o tehnică de contabilitate creativă (Sales of goods followed by their return - a creative accounting technique), *Review Accounting, expertise and business audit*, no. 3, pp. 32-37.
- Herbei (Moț), I., Cernușca, L., 2015. Perceptions Regarding Treatments and Creative Accounting Policies. *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series*, Issue 2/2015, [online] Available at: <http://www.utgjiu.ro/revista/ec/pdf/2015-02/26_Herbei,%20Cernusca.pdf> [Accessed 2 October 2020].
- Ionescu, C., 2006. Contabilitatea în fața provocărilor ingineriilor financiare (Accounting in the face of the challenges of financial engineering), *Theoretical and Applied Economics Journal*, pp. 101 – 104 [online] Available at: <<http://store.ectap.ro/articole/102.pdf>> [Accessed 11 October 2020].
- Mihăilă, S., Erhan L., 2015. Poziționări și evoluții în contabilitatea creativă (Positions and evolutions in creative accounting), *Analele ASEM*, pp. 89 – 95.
- Moisescu, F., 2016. The Art of "Creative Accounting" in the Economic Context, *The Journal Contemporary Economy*, vol. I, no. 2, pp. 38-42, [online] Available at: <<http://www.revec.ro/papers/160204.pdf>> [Accessed 23 October 2020].
- Munteanu, V., Zuca, M., 2011. Considerations on the Use of Creative Accounting in Distorting the Information in Financial Statements and "Maximization" of Company Performance. *Finacial Audit Review*, no. 3, pp. 3-10.
- Popa, M., 2012. Optimization of fiscal costs versus creative accounting. *Procedia - Social and Behavioral Sciences*, no. 62, pp. 1271 – 1275 [online] Available at: <https://www.researchgate.net/publication/271880912_Optimization_of_Fiscal_Costs_Versus_Creative_Accounting> [Accessed 23 October 2020].
- Popescu, V. A., 2006. Vulnerabilities of Financial and Accounting Information In Market Economy. *Annales Universitatis Apulensis Series Oeconomica*, vol. 1(8), pp. 1-25.
- Voina, M.M., 2013. Contabilitatea - o reprezentare normativă a realului economic? (Accounting - a normative representation of the economic reality), *Cross-Cultural Management Journal* no. 28, pp. 106-113, [online] Available at: <https://seaopenresearch.eu/Journals/articles/MI_28_14.pdf> [Accessed 3 November 2020].
- 19.Stanciu, F., *Puterea creativitatii (The power of creativity)*, [online] Available at: <<https://www.iqool.ro/puterea-creativitatii/>> [Accessed 14 September 2020].
- Suer, A.Z, 2014. The Recognition of Provisions: Evidence from BIST100 Non-financial Companies. *Procedia Economics and Finance*, no. 9, pp. 391 – 401, [online] Available at: < https://ac.els-cdn.com/S2212567114000409/1-s2.0-S2212567114000409-main.pdf?_tid=3f24ebc9-3e09-4764-924e-98b2e561b032&acdnat=1535493132_82355c5b1c401b0a48422b0ff460aaf6> [Accessed 1 October 2020].
- Zuca, M., Ioanăș, C., 2012. Embellishment of financial statements through creative accounting policies and options, *Procedia - Social and Behavioral Sciences*, no. 62, pp. 347 – 351 [online] Available at: <<https://www.sciencedirect.com/science/article/pii/S1877042812034969>> [Accessed 1 October 2020].
- European Commission, 2018. *Accounting treatment of provisions, contingent assets, contingent liabilities and financial guarantees with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS)*, Paper by PwC on behalf of Eurostat, p. 8, [online] Available at: <<https://circabc.europa.eu/sd/a/5a80c20d-0225-4d66-996d-05862de316e1/Issue%20paper%20on%20accounting%20treatment%20of%20provisions%20etc.pdf>> [Accessed 14 September 2020].
- *2014/95/UE Guideline*, [online] Available at: <<https://eur-lex.europa.eu/legal-content/RO/TXT/HTML/?uri=CELEX:32014L0095&from=ES>> [Accessed 25 October 2020].
- Law no. 201/2018 for the amendment and completion of some normative acts in the field of education, Official Monitor, no. 661 of July 30th, 2018.
- Government Ordinance no. 17 from 23rd August 2012 on the regulation of fiscal-budgetary measures, Official Monitor 611 of 24th August 2012.
- Government Emergency Ordinance 71/2009 regarding the payment of some amounts provided in executory titles having as object the granting of salary rights to the personnel from the budgetary sector, Official Monitor, no. 416 from June 18th, 2009.

- The order of the Ministry of the Public Finance no. 1917/2005 for the approval of the Methodological norms regarding the organization and the management of the accounting of the public institutions patrimony, of the accounts plan for the public institutions and the monograph regarding the registration in accounting of the main operations, Official Monitor no 1186bis/ 2005, with the following changes and.
- The order of the Ministry of the Public Finance no. 416/2013 for the adjustment and completion of the Methodological Norms regarding the elaboration and submission of the quarterly financial statements for public institutions, as well as of some monthly financial reports in 2009, approved by the Minister Order of Public Finance no. 629/2009, Official Monitor, no. 190 from April 4 th, 2013.
- <https://ro.wikipedia.org/wiki/Cunoa%C8%99tere>.
- <http://stagiipracticala.roger-univ.ro/wp-content/uploads/Ghid%20cariera/1-ghid-cariera-hortensia-gorski.pdf>.