

CONSIDERATIONS ON THE NEED TO IMPLEMENT INTERNATIONAL ACCOUNTING STANDARDS FOR THE PUBLIC SECTOR IN ROMANIA

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ABSTRACT: *The current context of the globalization of the economy, the development of the capital markets and the accession of Romania to the European Union, imposed a series of measures regarding the introduction of accrual accounting in order to fulfil the assumed commitments. Therefore, Romania's primary purpose in developing the public accounting system was to harmonize it with national legislation, European directives and International Accounting Standards for the Public Sector. From the analysis carried out on the reform initiated in the Romanian public accounting system, it transpired that the national legislation was substantially improved by introducing specific elements for the accrual accounting. Regarding these aspects, the objective of this paper is to undertake an analysis of the implementation of the International Public Sector Accounting Standards by identifying those standards that can be easily applied and adapted to the specifics of the public system in Romania, given that the regulatory bodies recommended their application rather than their obligation.*

KEY WORDS: *International Public Sector Accounting Standards (IPSAS), accounting harmonization, implementation, public institutions, regulatory bodies.*

JEL CLASSIFICATIONS: *H83, M41, M48.*

1. INTRODUCTION

Accounting harmonization has made it necessary to adopt a common financial reporting language, which is achieved through the accounting normalization process. In this respect, the improvement and reduction of the differences between the national accounting practices and the international ones, aiming to develop principles and norms of a general nature leading to comparability of the information provided by the

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content of the financial statements of entities in the public sector. At the same time, the harmonization of rules is seen as the main means of ensuring the transparency and comparability of the information that leads to the optimization of the public sector decision-making process, from which interested parties can make an appreciation of the performance of different levels of this system. At international level, accounting harmonization at the public system level is guided by the International Public Sector Accounting Standards (IPSAS) developed by the International Public Sector Accounting Standards Board (IPSASB), a body that aims to evolve accounting standards to the highest levels, so that they can be used efficiently by public entities in the process of generating financial statements with a general purpose, which will lead to an improvement in their degree of trust and transparency. Thus, there are concerns both at the international level and within the European Union for the normalization and harmonization of accounting systems in order to create uniform procedures for the recording of financial transactions at the level of all states (Bellanca, 2015).

The integration of Romania as a full-fledged member of the European Union has led to multiple changes in the level of accounting for public institutions. In this regard, the accounting regulations for public institutions, approved by O.M.F.P. no. 2021/2013 are based on the international vision of public sector accounting and professional judgment. From this perspective, these regulations explicitly or implicitly include elements of the International Public Sector Accounting Standards (IPSAS).

Government adoption of IPSASs will improve both the quality and comparability of financial information reported by public sector entities around the world. It will also strengthen the management of public finances, which will lead to a better assessment of government resource allocation decisions, thereby increasing transparency and accountability (Tudor & Crişan, 2017; Dascălu et. al., 2006; Nistor, 2017; Ristea et.al., 2010).

In the current context at the European level, it is envisaged to develop a harmonized accounting framework that responds to the specific needs of the public sector in the Member States. From this perspective, the European Commission develops its own accounting rules, called the European Public Sector Accounting Standards (EPSAS), based on IPSAS. Given that Romania is a member of the European Union, it will have to comply with the European public accounting requirements as well. That is why accountants working in public institutions need to familiarize themselves with IPSAS specific accounting concepts and reasoning.

2. LEGISLATIVE APPROACHES REGARDING THE EVOLUTION OF PUBLIC ACCOUNTING IN ROMANIA IN VIEW OF THE TRANSITION TO THE ADOPTION OF IPSAS

Over time, our country's public accounting system has evolved in light of the changes that have taken place at certain times. All this was determined by the emergence of the market economy and the fall of the communist regime. A number of legal provisions constituted the cornerstone that revolutionized public accounting in Romania, namely: Accounting Law no. 82/1991, Order of the Ministry of Public Finance (OMFP) no. 1746/2002 and 1792/2002 on the hiring, liquidation, authorization

and payment of expenses to public entities, GD no. 81/2003 and OMFP no. 1487/2003 regarding the revaluation and amortization of fixed assets held by public entities, OMFP no. 520/2003 on the organization and management of the budgetary revenues, but not the last of the OMFP no. 1917/2005 regarding the new plan of accounts for public institutions, which made a closer alignment to the entity's chart of economic accounts.

The adoption of IPSASs started in 2002, when the transition from the cash accounting to the accrual - based accounting took place, having as a legal document the implementation of OMFP no. 1746/2002, through which the methodology for organizing and managing the accounting of the public system, the chart of accounts and the accounting monographs used for the registration of operations was established. The basis for this regulation was a series of elements of the European System of Accounts (ESA 95), the Financial Regulation of the Council of Europe no. 1605/2002 or the Manual of Government Financial Statistics, prepared by the International Monetary Fund. Also, the introduction of the new budget classification applicable from January 2006 through OMFP no. 1954/2005 was imposed by the necessity of its correlation with the National Accounts System and the 2001 Public Finance Statistics Handbook. The purpose of this order was to comply with the Standards of International Bodies on the Compilation and Presentation of Public Finance Statistics, in order to improve the structure and the transparency of operations carried out on public funds as well as our country's commitment to implementing the *acquis communautaire* in the field of public finances.

Later, after Romania's accession to the European Union, it was necessary to improve accounting in the public system through the emergence of new regulations at the national level through OMFP no. 2021/2013, applicable on 1 January 2014, and at European Union level by Regulation no. 549/2013 on the European System of National and Regional Accounts of the EU (SEC 2010) applicable on 1 September 2014, the date from which information was transmitted to Eurostat in compliance with the 2010 ESA rules. This sets out the accounting framework applicable at European level which gives the possibility of an analytical and systematic presentation of a country's economy, its main components and its relations with other economies in order to ensure international comparability, harmonization with other economic and social statistical systems, consistency, stability over a long period, focus on process description economically sound and easy to monitor; application capability in different situations and with different purposes. Consequently, the transposition of this regulation at the level of Romania was achieved through: OMFP no. 496/2014 for the approval of the Methodological Norms regarding the acquisition and withdrawal of the certificate of attestation of acquired knowledge in the field of the European System of Accounts and of the Law no. 270 / 2013 amending and supplementing Law no. 500 / 2002 on public finances.

Therefore, the progress made in our country's public accounting system for the implementation of IPSASs contributes to: the increase of the quality of financial reporting by the institutions, the credibility and transparency of the information provided, the achievement of comparability and a responsible evaluation at the level of all the managed resources, making accurate decisions, assessing the financial situation,

financial performance and cash flows, good management and resource management, more detailed information on cost-effective management of results, performing more effective internal control and much more transparency regarding assets and liabilities (Deaconu, et. al., 2011; Gisberto & Nisulescu-Ashrafzadeh, 2017; Răscolean & Rakos, 2015).

All these aspects covered by public accounting have been and are still possible following the evolution of the national regulatory framework, with IPSASs main benchmark setting out how to recognize, evaluate, describe and present transaction information and events in general purpose financial statements.

3. THE CURRENT STATE OF IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The world globalized economy and financial markets have contributed to the recognition of IPSAS as a common methodological basis for the preparation of financial reporting by the budgetary sector. The experience of other countries reflects that such features, such as intelligibility, relevance and comparability of information, are achieved through the direct use of international standards for the preparation and reporting of financial statements (Măcriș, 2015). At the public sector level, by introducing accrual accounting and waiving cash accounting was the first step and the most important reform process of public financial management. On this basis, IPSASs are the main international reference that provides financial information to the public sector through the use of accrual accounting. International bodies contributed by adopting IPSASs to their legitimacy, this ample process having a particular impact on their implementation at the EU level for the Member States.

The accounting harmonization imposed the need to adopt a common financial reporting language, which can be achieved through the accounting normalization process. In this regard, the improvement and reduction of the differences between the national accounting practices and the international ones, aiming to develop principles and norms of a general nature leading to comparability of the information provided by the content of the financial statements of entities in the public sector (Man & Ciurea, 2016 a, b). At the same time, the harmonization of rules is also considered as the main means of improving clarity and comparability, which will also lead to the completion of the wide public decision-making process, from which stakeholders can assess the performance of the different levels of this system. Public Accountancy Harmonization (IPSAS) has as its main reference the International Public Sector Accounting Standards (IPSAS).

The accrual-based accounting standards adopted for all areas of the public system at EU level are the best solution for public sector management and governance. In the public sector, accrual accounting is intended to increase the efficiency and effectiveness of the business, while providing liquidity requirements for optimal performance of this system (Pitulice, 2013; Tudor, 2010; Man et al., 2010, 2012). In this context, IPSASs are the only tool for accounting for the public system that helps to manage it, according to clearly defined principles, which largely depend on information from managers providing information on the financial and economic

situation and performance of it. This type of accounting is the only system for obtaining generally accepted information, which identifies the true, complete and reliable image of the financial situation and the performance of public entities (Nicula & Bragadireanu, 2017; Dumitru & Pitulice, 2014; Munteanu et. al., 2013, 2014). At the same time, this implies the recording of all transactions, not when cash is made, but at the moment when the economic value is created at the time when claims and obligations arise or turn out or when they record transactions when the amount is received or paid. In fact, accrual accounting can be considered as complementary to cash accounting and not an alternative to it.

Since 2012, C.E. through EUROSTAT initiated the process of setting up the European Public Sector Accounting Standards (EPSAS), which considered the fact that the implementation of the central EU budget made up of national budgets, requires common accounting tools to be harmonized and applied by all members. Therefore, IPSASs are the most appropriate reference framework for the future development of these European standards, called “EPSAS”, whose adoption contributes to the broad process of meeting EU requirements, and will bring substantial benefits better governance, development of public management, accountability in financial management and transparency.

Based on the latest information made by visiting www.ifac.org, in the section for the public sector, we have found that new standards have been added, currently there are 41, of which 40 for accrual accounting and one for house accounting. Their inspiration came from IFRS and some of them have been tailored to the public sector. In this respect, the following standards may be mentioned: IPSAS 22 “Presentation of Financial Statements to the State Sector”, IPSAS 23 “Income from Transactions other than Exchange Rate (Taxes and Duties)”, IPSAS 24 “Presentation of Budget Information in the Financial Statements”, IPSAS 32 “Service Concession Liabilities: Grantors”, IPSAS 33 “First-time Adoption of the Undertaking Basis”, IPSAS 39 “Employee Benefits”, and IPSAS Standard “Financial Reporting according to Cash Accounting”. Starting from the fact that the evolution and context of the act of the public sector activity is constantly changing, these standards are regularly amended and revised.

At the level of Romania, the institution with attributions in the field of public accounting regulations is the Ministry of Public Finance (MFF), which through the General Direction of Treasury and Public Accounting has as main duties:

- *studying and analyzing the European Directives, the International Standards and the Financial Reporting of the Public Sector, as well as other documents adopted by the professional bodies in order to achieve the convergence of these regulations with the national ones;*
- *ensuring that the annual and quarterly financial records required to provide information for the statistical reporting of EUROSTAT and other international bodies are improved and updated.*

The analysis of the specialized literature on the implementation of IPSASs in our country revealed that the opportunity for cooperation between the Court of Accounts and the Ministry of Public Finance was required to obtain certain assurances that all consolidated accounting reports are adjusted and meet the IPSAS requirements.

Thus, in order to respond promptly to the international commitments assumed, this institution carried out a documentation that aimed at the evaluation and the stage of implementation of IPSASs. In this regard, a number of issues have emerged, related to the fact that:

✓ *did not exist at M.F.P. any collaboration with another specialized structure regarding the implementation of IPSASs;*

✓ *at the level of Romania, an interdepartmental committee was not established for the implementation of IPSAS, although it was adopted in 2017, Order no. 928 on the approval of the Organization and Functioning Regulation of the Public Accountancy Council, it should have been the main independent supervisory body to ensure the convergence of national regulations and practices in the field of public accounting with the regulations applied at the E.U.;*

✓ *no implementation timetable for IPSASs was established because it was not a request from the European Commission (E.C.), although the International Monetary Fund and the World Bank requested information on their applicability;*

✓ *the completion of the transposition process of all IPSASs has not been accomplished as new developments of the E.C. are expected;*

✓ *the following standards have been implemented only partially: IPSAS 1 "Presentation of Financial Statements", IPSAS 2 "Cash Flow Statements", IPSAS 4 "The Effects of Changes in Foreign Exchange Rates" IPSAS 5 "Borrowing Costs", IPSAS 11 "Construction Contracts", IPSAS 12 "Inventories", IPSAS 13 "Leases", IPSAS 17 "Property, Plant and Equipment", IPSAS 19 "Provisions, Contingent Liabilities and Contingent Assets", IPSAS 23, "Transactions other than exchange transactions (taxes and charges)", IPSAS 24 "Presentation of Budget Information in Financial Statements", IPSAS 31 "Intangible Assets".*

Also, there are standards that are not found in the Romanian regulations at all, it is the case with the following standards: IPSAS 11 "Construction Contracts", IPSAS 16 "Real Estate Investment", IPSAS 27 "Agriculture" and IPSAS 32, "Commitments concession of services: concessionaires", etc. In the table no.1 the present situation of the implementation of IPSASs in the accounting of the Romanian public system is presented.

Table no.1. The current state of implementation of IPSASs in the Romanian public system

Crt. nr.	Name of standards	Full implemen- tation	Partial implemen- tation	Non-implemen- tation
1.	IPSAS 1 „ Presentation of Financial Statements”	-	X	-
2.	IPSAS 2 „ Cash Flow Statements”	-	X	-
3.	IPSAS 3 „Accounting Policies, Changes in Accounting Estimates and Errors”	-	X	-
4.	IPSAS 4 „The Effects of Changes in Foreign Exchange”	-	X	-
5.	IPSAS 5 „Borrowing Costs”	-	X	-
6.	IPSAS 6 „Consolidated and Separate Financial Statements”	-	X	-
7.	IPSAS 7 „ Investments in Associates”	-	X	-

8.	IPSAS 8 „Interests in Joint Ventures”	-	-	X
9.	IPSAS 9 „Revenue from Exchange Transactions”	-	X	-
10.	IPSAS 10 „Financial Reporting in Hyperinflationary Economies”	-	-	X
11.	IPSAS 11 „Construction Contracts”	-	-	X
12.	IPSAS 12 „Inventories”	-	X	-
13.	IPSAS 13 „Leases”	-	X	-
14.	IPSAS 14 „Events After the Reporting Date”	-	X	-
15.	IPSAS 15 „Financial Instruments: Disclosure and Presentation”(superseded by IPSAS 28 and IPSAS 30)	-	X	-
16.	IPSAS 16 „Investment Property”	-	-	X
17.	IPSAS 17 „Property, Plant and Equipment”	-	X	-
18.	IPSAS 18 „Segment Reporting”	-	-	X
19.	IPSAS 19 „Provisions, Contingent Liabilities and Contingent Assets”	-	X	-
20.	IPSAS 20 „Related Party Disclosures”	-	-	X
21.	IPSAS 21 „Impairment of Non-Cash-Generating Assets”	-	X	-
22.	IPSAS 22 „Disclosure of Financial Information About the General Government Sector”	-	X	-
23.	IPSAS 23 „Revenue from Non-Exchange Transactions (Taxes and Transfers)”	-	X	-
24.	IPSAS 24 „Presentation of Budget Information in Financial Statements”	-	X	-
25.	IPSAS 25 „Employee Benefits”	-	X	-
26.	IPSAS 26 „Impairment of Cash-Generating Assets”	-	X	-
27.	IPSAS 27 „Agriculture”	-	-	X
28.	IPSAS 28 „Financial Instruments: Presentation”	-	X	-
29.	IPSAS 29 „Financial Instruments: Recognition and Measurement ”	-	X	-
30.	IPSAS 30 „Financial Instruments: Disclosures”	-	X	-
31.	IPSAS 31 „Intangible Assets”	-	X	-
32.	IPSAS 32 „Service Concession Arrangements: Grantor”	-	-	X
33.	IPSAS 33 „First-time Adoption of Accrual Basis IPSASs”	-	-	X
34.	IPSAS 34 „Separate Financial Statements”	-	X	-
35.	IPSAS 35 „Consolidated Financial Statements”	-	-	X
36.	IPSAS 36 „Investments in Associates and Joint Ventures” which has replaced IPSAS 7 and IPSAS 8	-	-	X
37.	IPSAS 37 „Joint Arrangements”	-	-	X
38.	IPSAS 38 „Disclosure of Interests in Other Entities”	-	-	X
39.	IPSAS 39 „Employee Benefits” which has replaced IPSAS 25 with application since 1.01.2018	-	X	-
40.	IPSAS 40 „Public Sector Combinations,” to be implemented with 1.01.2019	-	-	X
41.	IPSAS „Released to Improve Financial Instruments Reporting”	-	-	X
	TOTAL STANDARDS = 41	0	26	15

Source: processing author

From the analysis of the information presented above, it resulted that 29 standards were partially implemented and 12 of them were not implemented at all. Thus, it can be estimated that the implementation rate is 63.4% at the level of 2018. If we refer to the grouping of these standards used to present the financial statements, revenues, expenditures and financial position, we will find that the highest degree of implementation have those relating to the presentation of financial statements, followed by income and expenses.

4. CONCLUSIONS

The global financial community, and in particular the European one, agree with the need to implement consistent, high-quality, high-quality counterparts. The need for a common language at the international level in the context of contradiction is very important because it provides a horizon for the professional debate. As a result of the changes in the Romanian public contingency, especially since 2016, when the approved regulations contain concepts and definitions from the International Standards for Public Sector Compatibility. They also recommend the possibility of selecting a contradictory tract to the application of a stable policy through professional judgment correlated with the requirements of the norms. All standards are an indisputable reference for the establishment of new EU-wide public sector accounts.

The conclusion drawn from this analysis is that the implementation of IPSASs is a process that has been successfully launched in only one EU member state, namely Spain, and in other countries this process has been difficult to achieve because of the very large differences between IPSASs and nationally applied standards. Many of the obstacles to the implementation process have been generated by high costs or the need for substantial legislative changes. In Romania, the implementation of IPSASs has been achieved only partially, and the legal regulations in force at national level have and have inspired these standards, but without direct reference to them.

Increasing the efficiency of public administration activity in administrative transparency, the use of modern communication tools and the transmission of information are major objectives that are permanently found in their strategies. One of the tools to implement these goals is to use the FOREXEBUG system that allows for standardizing the reporting and transmission of 15 types of financial statements for each public administration entity versus 43 physical forms that were completed before using the new system. These situations are transmitted in electronic, standardized and secure format, which has allowed the confidence of data collected through cross-checks with system data to be increased. Therefore, the major advantage of using this system is that it allows for electronic monitoring and control of legal and budgetary commitments, with a direct impact on improving financial discipline and preventing the build-up of public institution arrears.

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