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Public accounting history in post-communist Romania

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ABSTRACT

Having a longitudinal approach of the Romanian public accounting system's evolution, this historical study proposes the development of a framework in order to assess in a descriptive manner the change of public accounting and its implications for Romania, a European emerging country. The evolution from cash accounting to accrual accounting took place during three time periods within the timeframe 1991–2015. For each of these time periods we investigated influential factors such as period, place, people, practices, propagation, products, and profession. The study shows that under the influence of the international managerial public reform and the internal factors analysed, the public accounting system shifts from the old values of the post-communist period to new reference bases such as International Public Sector Accounting Standards (IPSAS). The results of the study place Romania, an East European country, on the map of international public sector accounting systems as a relatively new arrival but with serious intentions of integration.

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1. Introduction

Currently, around the world, the public sector follows the management rules of private organisations as the services provided by the public sector are based on the investment theory (e.g., Haavelmo, 1960). Revenue and expenditure management imposed by this approach (Biot-Paquerot & Rossignol, 2006) involves performance measurement, which in turn implies knowledge from several fields: social science, management, sociology, accounting, psychology, mathematics, and information technology (Mitu et al., 2007). Financial accounting is part of one of the fields mentioned and it is focused more and more on the creation of value for shareholders and other stakeholders. Financial accounting is one of the information sources for planning, decision-making, and control. It serves the strategic objectives of the organisation, especially through quantitative values (financial) comprised in the financial statements designed to inform different categories of stakeholders in relation to its objectives, concepts, and methodology. In this study, we are going to analyse the accounting systems applicable over time in the Romanian public sector, systems that can be more or less informative – through financial reporting – on the measurement of performance and in its communication to stakeholders.

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Over the last few decades a significant managerial reform of the public sector took place internationally, based on the neoliberal market principles. Once public institutions are considered entrepreneurial organisations, the New Public Management (NPM) is adopted – a concept that promotes the implementation in the public sector of a managerial approach specific to the business sector (Aucoin, 1990; Hood, 1995). This new managerial perspective requires an organisational, functional, and procedural review, and implies the shift from cash accounting to accrual accounting as public accounting systems (Deaconu, Nistor, & Filip, 2011). The debate around the two public accounting systems from the last decades reached an end as accrual accounting was accepted in most jurisdictions around the world. As Lapsley, Mussari, and Paulsson (2009) comment, the adoption of accrual accounting is regarded nowadays as self-evident. A large number of countries took on, or are in the process of implementing, accrual accounting principles in the public sector (Connolly & Hyndman, 2006; Lüder & Jones, 2003; Paulsson, 2006). Accrual accounting started being applied by nations that are very diverse geographically, economically, and culturally – for example, New Zealand, South Asian countries such as Thailand, Indonesia and Malaysia, Latin American countries such as Peru and some European countries, Switzerland, Austria and Estonia (IFAC, 2015). The trigger of the implementation process for many countries that are in an urgent need of financing their economic systems was the acceptance of accrual accounting for governments by the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the World Bank (WB).

In the case of the member states of the European Union (EU) the current trends confirm that the adoption of accrual accounting is becoming a necessity (Jones & Caruana, 2015). In this context the European Commission is considering developing its own accounting regulations, known as the European Public Sector Accounting Standards (EPSAS) which are expected to respond to the specific needs of the public sector in the EU member states. Tax accounting reporting should be completed with fiscal monitoring at EU macro level, which follows the definitions of the European System of Integrated Economic Accounts (ESA), the statistical framework for describing the economy. Experts of the public sector believe that disclosing such information would contribute to a better understanding of performance in the public sphere. Therefore, ESA 95/2010 as the accounting framework for fiscal monitoring under the Maastricht Treaty should be accruals based, in order to increase the understanding of the performance in the public organisations.

It raises the question of compatibility between the two public sector accounting systems, not only within the EU but also globally (Lequiller, 2012), as they also adopted accrual principles. In this context, the comparability of accounting systems became essential. For emerging countries, many of them ex-communist countries, the competitive level of the public sector had to be increased in the context of creating a NPM. The main obstacle generally evoked about the future implementation of accrual accounting was connected to the cost of implementation. However, based on experience, the total costs are generally relatively small compared with the level of financial transactions of governments (Lequiller, 2012).

For Romania, classified as an emerging country, the adoption of accrual accounting in the public sector had as the main reason the decision made in 1999 by the EU to start the negotiation process for Romania's accession to the EU in 2007. Thus, the imminence and then the effective accession of Romania to the EU with full rights marked the period

2002–2007 and had as an effect the alignment with the European accounting policy. If we were to comment on this choice for Romania we present the opinion of Dascălu (2006) who stated that the process of Romania's accession to the EU raised some problems for the professional accountants, problems of attitude, of reasoning, of ethics and of strategy. In the particular case of emerging economies and of the transition from the cash-based system to the accrual-based system, Diamond (2002) and Wynne (2008) sustain that these countries have too eagerly accepted this reorientation, and that the claimed benefits of introducing accrual accounting are not being accomplished in practice. Dorotinsky (2008) states that these countries should be very well-informed, should resort to international guidance, and should know their national characteristics and economic limits.

Taking into account these facts, the present study may be categorised as a historical paper, as it addresses issues related to the Romanian public accounting evolution in its environment and the forces affecting this development. This intercession is meant to outline the characteristics of public accounting in the period following the fall of the communist regime, namely the transition from a socialist economy to a market economy. Moreover, the ingression on the Romanian accounting history verifies to what extent the move from cash to accrual in public accounting was advantageous, in the sense of consistency with the context of an emerging country and the evolution of the components of an accounting system such as people, practice, propagation, products and profession.

The contribution of our research is the assessment of the advantages and disadvantages of accounting accrual system implementation in Romania and the appropriateness of the shift from cash to accrual accounting in relation to a specific context and accounting evolution. We think that following a certain trend or compelling with some regional/international requirements is not in any circumstances an (immediate) achievement in line with the global benefits expected. The Romanian case may bring extra insight for emerging contexts, considering that public accounting systems, in their evolution, have been explored to a greater extent for Western economies and there is a gap in the literature related to developing economies.

The remainder of the paper is organised as follows: Section 2 provides a literature review considering the role of accrual accounting within the public sector reform in the world and in Romania; Section 3 presents the framework of the study and its application for the case of Romanian public accounting evolution; the final section discusses the accrual accounting benefit for the emerging studied context and concludes.

2. Accrual accounting and the public sector reform

2.1. The public sector reform in the international context

European and global economic life shows that public institutions are significant players, at least for the following reasons (Lequiller, 2012): governments are major participants in capital markets globally; the fiscal accountability of governments is significant for enhancing economic growth and development worldwide; governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers to provide services to citizens and other service recipients; data generated by government accounting is also used as a basis for the preparation of Government Financial Statistics; money raised through taxation is allocated to spending, for the benefit of the country and its citizens.

The reform of public sector accounting has developed as a component of the economic reform in the public sector, based on neoliberal principles such as anti-inflationist monetary policy, macroeconomic fiscal discipline that would lead to balanced public budgets and microeconomic reforms for free trade and extension of the business sector (Elwood & Newberry, 2007). The major objective of the reform was to reduce the power of governments but at the same time support business development. The relative large scale of the public sector in the countries of the OECD, with its peak in the period 1970–1980, was seen as one of the causes of reduced economic growth in those countries (Elwood & Newberry, 2007). The proponents' arguments for the reform are linked to bureaucracy, which is defective and resource consuming, to a free market, which is the most efficient method for scarce resource allocation, and finally to private sector management techniques, which represent a suitable model for the public sector (Connolly & Hyndman, 2006).

Among the first countries that embraced this change was Australia, which implemented a reform both at the federal level and at the states level between 1976 and 1996, and with an intensity in the period 1980–1990 (Scott, McKinnon, & Harrison, 2003). In Europe, the reform of the public sector's management started between 1980 and 1990 (Spathis & Ananiadis, 2004). In the UK, where the reform was significantly conducted, numerous changes in the public sector took place. Similar reforms were made in other states of Western Europe (Guthrie, Olson, & Humphrey, 1999; Pollit & Bouckaert, 2000). The changes focused on improved planning, control, transparency, efficiency, effectiveness and accountability in the public sector. All of these features are translated in new management practices in sectors such as healthcare, education, central and local administration. The reform evolved into six dimensions, i.e. privatisation, market orientation, decentralisation, output orientation, quality systems, and intensity in implementation.

The introduction of accrual accounting globally was considered a reform of financial management and accountability (Scott et al., 2003), a 'new public financial management' designed to introduce major changes in the management style and activities of the public sector (Windels & Christiaens, 2007). In other words, the aim was to make the financial reporting of the Government or any other public organisation more easily understood and comprehensive (Spathis & Ananiadis, 2004).

The orientation towards accrual-based accounting and financial reporting started at the end of 1980 in Australia and New Zealand. The stream extended to Great Britain and the United States of America (USA) as all these countries were strongly influenced by the management philosophy (Lye, Perera, & Rahman, 2005). Among those countries, New Zealand moved completely to accrual accounting (starting in 1992) and at the end of the millennium had the most complete publication of the elements of this accounting system. The USA was at the other extreme as they introduced gradual change and not in all the states. In addition, it was estimated that starting with 2002 all the member states of OECD would use accrual accounting in their financial reports (Connolly & Hyndman, 2006).

In Europe, as a result of the public sector's reform in the world, a legal framework was developed regarding the financial management of the EU's budget. In order to move to an accrual-based accounting system, the European Commission asked for two types of accounts: (1) budget accounts designed for public authorities and based on the cash concept and (2) general accounts based on accrual accounting (Spathis & Ananiadis, 2004). If we exemplify the European countries' practices, in the UK accrual accounting was introduced for the local authorities earlier, in the middle of the nineteenth century, and in the healthcare

sector through the reforms from the beginning of the 1990s. Then, in 1993, it was proposed as resource accounting for the central authority, and it was implemented until 2001 (Connolly & Hyndman, 2006). Several other studies analysed the implementation of new reforms and accounting techniques in the European environment, West Europe, and critically evaluated these changes (for example, Ellwood, 2003; Pallot, 2001).

Hence, all this effort to move towards accrual accounting has different approaches internationally. There are opinions that countries which undertook this type of reform (e.g. Australia, New Zealand, the UK) consider that the move to accrual accounting may have never taken place given the obtained results and the effort implied (Dorotinsky, 2008). Other countries (e.g. China, Malaysia, the Netherlands) who declared their intention to reform the public accounting system have also reviewed the evidence and have decided that a move to accrual accounting is not appropriate, at least in the short-term (Wynne, 2008).

However, this current position, especially in the case of EU member states, must have as a foundation the main statements found in the Council Directive 2011/85/EU, which address the following topics: harmonisation of the public accounting system of EU member states starting from IPSAS by creating EPSAS and unified reporting (accounting and statistics) mandatory in accrual basis. All these affect differently the current accounting systems given the randomness of IPSAS implementation when it is left to the discretion of countries to choose their implementation at different stages, on different levels, in different reporting basis (accrual or cash).

In order to develop a common reference base, IFAC (2016) issued 38 international references for public sector accounting, i.e. International Public Sector Accounting Standards (IPSAS), which support the implementation of accrual accounting. Among the countries that implemented the first IPSAS referential there are Spain (1989), New Zealand (1993) and Australia in 1994 (Guthrie, Humphrey, Jones, & Olson, 2005). A few other governments followed over the next decade, but by 2006 the total was still only around 10 of the nearly 200 countries in the world (Wynne, 2008). However, in the EU, only 15 member states have linked the accounts of public sector entities with IPSAS, reference base EPSAS, either by developing national regulations based on IPSAS, in accordance with EPSAS, or by reference to IPSAS and their use in different public sector management segments – Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, France, Greece, Latvia, Lithuania, Malta, Romania, Slovakia, Spain and Sweden (KPMG, 2013). It is interesting that no member state has fully adopted IPSAS as the accounting system for the public sector. The reluctance is confirmed by a number of studies (Olson, Guthrie, & Humphrey, 1998; Ter Bogt & Van Helden, 2000) stating that the implementation results are not always as expected. There are also situations in which there are no clear statements on the taking over of IPSAS stipulations in the national rules and regulations, a fact that does not mean that those countries do not relate to IPSAS.

2.2 Debates regarding cash-based and accrual-based public accounting systems

A rich literature debated on the advantages and disadvantages of the two accounting systems that were compared over time. With no intention to get into too much detail, we mention some studies (Lapsley, 1999; Lapsley & Oldfield, 2001; Likierman, 2000; Lye et al., 2005; Mellett, 1997; Pallot, 1992, 1994; Parker & Guthrie, 1990) which argue that accrual accounting better promotes the objectives of efficiency, effectiveness, transparency and accountability.

Implementing a high performance management system implies direct public accountability, also sustained by Coy and Pratt (1998). This shift is viewed as a necessary condition for the enhancement of public sector organisations' accountability and performance in view of the key role held by accounting information in decision-making in organisations (Pettersen, 2001). Lye et al. (2005), Micallef (1994) and Wong (1998) show evidence that both internal and external users obtain advantages as a result of accrual-based accounting, which is a fundamental part of a high performance management system, based on clear objectives, good performance information, incentives and freedom in management. In addition, accrual accounting leads to better financial management in the public sector (Evans, 1995).

An accrual accounting framework is essential to systematically determine the full costs of the government's activities (Khan & Mayes, 2009). According to the experience of developed countries, empirical evidence indicates that accrual accounting presents in clear and concrete terms the financial position (Chan, 2003; Guthrie, 1998), the performance (Goldman & Brashares, 1991; Hodges & Mellett, 2003) and implies transparency, an important indicator of correctness and efficiency in the public sector (Van der Hoek, 2005; Yamamoto, 1999). Collier (2003) believes that accrual accounting offers a better image of the business's dynamic financial performance than cash accounting.

In comparison with the advantages previously presented, there is also criticism in what concerns the accrual system, mainly in relation to the advantages of cash accounting. Anessi Pessina and Steccolini (2003) empirically demonstrated the important role of cash-based information narrowed to resources and consumption to the great majority of external users. Some authors show that there are doubts over the effectiveness of accrual accounting in guaranteeing sound financial performance, as failures and scandals in the private sector testify (Guthrie, 1998; Guthrie & Johnson, 1994; Guthrie et al., 1999).

One argument against accrual accounting is the extension of the implementation process. Khan and Mayes (2009) maintain that international experience suggests that the implementation of accrual accounting is a significant reform that requires strong political support, has to be sustained over a period of several years, and involves a significant investment of human and financial resources.

In the case of the accrual system the high level of implementation costs is proven, as opposed to the cash based system where costs are low due to the lower level of accounting skills required (IFAC, 2012). In the case of the cash-based system there are additional costs regarding budgeting in order to implement transition to accrual budgeting, an important aspect in the process of a complete and correct transition.

2.3. The public sector reform in Romania – an Eastern European country

The contemporary evolution of Romanian public sector accounting has its starting point in December 1989, a symbol for Romania of the end of the communist period and the beginning of the 'transition towards capitalism'. The fall of the communist regime represented the beginning of new trends in the Romanian accounting system which began to have access to real information and became familiar with the global tendencies. The implication of Romania, a former communist and now emerging country, in the process of accession to the EU made the transition period extremely dynamic. The sequence of transformations had multiple economic, political, social, educational, and cultural implications. The beginning of the changes brought to the management system of public institutions in Romania

is the decision of the European Council from Helsinki in 1999 that opened the negotiation process for Romania's accession to the EU starting with 2007 (Deaconu, Nistor, & Filip, 2009). Thus, the efforts to boost economic, social, and political convergence with the EU's structures became indispensable. The *community acquis* had to be introduced in the internal legislation (Deaconu et al., 2011).

The outlined legal support put Romania among the countries with an accrual based public accounting system, for which the evolution of international tendencies represents a reference base. Thus, a series of international publications such as the General Trade and Accounting or the Bulletin of Accountants have analysed the post-communist evolution of Romanian public accounting, presenting the major events of its transformation, in comparison with the international context (Calu, 2005). The aim was to connect Romanian public accounting with the international reality, or more exactly to the European accounting system based on accrual accounting and the IPSAS.

According to the opinion of Romanian politically responsible parties, the move to the new accounting standards was considered appropriate in order to simplify processes, increase productivity levels and decrease operational costs. However, referring to the impact of IPSAS and accrual accounting over Eastern Europe, Hepworth (2003) concluded that the process of implementing accrual accounting is costly, time consuming and requires a diversion of resources from other activities. Under these circumstances, according to Wynne (2008), there is the issue of whether or not the claimed benefits of accrual accounting are being over-sold, especially to the governments of developing or transitional countries.

Nevertheless, given the political and economic dependency of Eastern European countries on powerful international forces, there is the need for a single, coherent accounting system that improves the effectiveness, efficiency and transparency of the process, assures a decent performance of the public environment, an increase of the trust given to the safety of public funds usage and supports delivery of public services (NAO (National Audit Office), 2008, p. 14). The risks of implementation must be assessed by each country and consequent measures ought to be taken, considering both the advantages and disadvantages of the process.

The process of implementing the legal framework must be considered in terms of stability and coherence regarding the decisions made (Nistor, Deaconu, & Severin, 2009), a framework of a clear and concise change process in accordance with all requirements on time, effort and efficiency. The main issue during a transition period is related to legal stability because progress in certain economic or social sectors becomes overruled by contrary decisions subsequently made.

Moving from the normative level of the public accounting system to accounting practice, there are studies that conclude with the fact that until now the Romanian practice did not reach accounting requirements in what concerns performance assessment through accounting indicators (Deaconu et al., 2009). Managers were not driven to performance in their actions or they did not use instruments accepted worldwide. Few public institutions were preoccupied with customer satisfaction (citizens), accountability or efficiency (Mitu et al., 2007).

There are three periods in the recent history of the public sector accounting system in Romania (Deaconu et al., 2009): (1) the pseudo-communist period of public accounting, which did not end in 1991 (the year when the communist regime ended and the transition to market economy is declared) from the point of view of its theoretical and legal bases,

but continued until 2002, being characterised by the cash based system; (2) the period between 2002 and 2005 which marks the start of public accounting's movement from cash basis to accrual basis; (3) the period from 2006 until the present, which is characterised by an accounting system based on accrual accounting. These periods are going to be detailed herein after.

3. The framework and the history of Romanian public accounting

This section presents the evolution of the public accounting system in relation to the evolution of the environmental factors that influenced it. The historiography approach, which we selected aims to underline the characteristics of an accounting system in the middle of its transition from a planned economy to a market economy. Moreover, the short ingression on the Romanian accounting history explains the way in which this country has entered the current global trend of IPSAS compliance/adoption.

Hence, we are in favour of a descriptive approach based on a literature and legislation review and the emerged facts in the context in which they evolved. As we believe that both the change process and its implications must be revealed, we chose a framework derived from the approach of Carnegie and Napier (2002). The authors developed factors that integrate accounting history, useful to comparative international studies, such as: period (1), place (2), people (3), practices (4), propagation (5), products (6), and profession (7). These factors are particularised for the case study of Romania.

The first factor of the framework is the *period (1)* studied, which represents the post-communist period, starting with the year 1991 until the present. We propose the delimitation of this period into three stages, which represent distinctive steps in the evolution of public accounting regulations: 1991–2001 (end of the year), 2002 (beginning of the year)–2005 (end of the year) and 2006 (beginning of the year)–2015. The first period is characterised by a cash based accounting system, generally derived from the characteristics of the socialist accounting system. The influence of incipient elements specific to accrual accounting start to manifest in the period between 2002 and 2005 as a result of the fact that once the Ministry of Public Finance, which was the regulatory body of public accounting, signed the European community acquis, it had the obligation to reform public accounting by adding accrual-based accounting to the cash-based accounting. In addition, IPSAS influence starts to manifest in the content of regulations, although to an extremely low degree (Nistor, Deaconu, & Cirstea, 2010). The last period between 2006 and 2015 is characterised by an accrual-based accounting system defined as such by the regulations, but in which there can also be found elements of cash based accounting adapted to specific characteristics of public institutions (e.g., the budget execution account, which includes elements specific to treasury accounting such as paid expenses and received income).

The second factor of the framework proposed, according to the Carnegie and Napier (2002) scheme, the *place (2)*, is Romania, a national state, with an emerging economy, being geographically located in Eastern Europe, having cultural affinities with the Latin countries and being economically and politically influenced, in the post-communist period, by the EU's countries.

The other elements of Carnegie and Napier (2002) framework are developed for Romanian public accounting in Table 1, and are based on several studies focused on this

Table 1. Synthesis of Romanian post-communist accounting history*.

Analysis factor	Post-communist period		
	Stage 1 1991–2001	Stage 2 2002–2005	Stage 3 2006–present
PEOPLE (1)	<p>The accountants are professionals highly trained in a quality educational system in high schools and Universities specialised in the accounting area.</p> <p>From a professional accountant's perspective, this period does not bring many changes and is still accepted as a continuation of the public accounting of the communist period (cash accounting), being practically indifferent to global trends in this field. The Educational System is making reference through extremely timid attempts to the international references of public sector accounting (IPSAS), this being referred to majorly in studies and research papers published in specialised journals.</p>	<p>It is the period of major changes, when the professional accountant is heavily involved and required. A total of 13 budget owners are subjected to double accounting approach (in cash basis and accrual basis), in order to quantify the problems and solutions of implementing the accrual accounting system. Staff training is performed slowly and uncorrelated with the needs of practice. Assimilation is slow compared to the start of the new accounting system implementation. Barriers are organisational (trainings are performed for the budget owners, members of the financial and accounting departments being excluded from this), age and mentality related (usually the average age of employees is higher in the public sector), determined by ignorance of international trends in the field (accounting regulations contain IPSAS elements, but there is no explicit reference to their existence or content). The educational field (Universities) includes in the training of the future generations of practitioners the study of IPSAS. Professional bodies begin the process of familiarising the accountants with the form, content and role of IPSAS in the public accounting field.</p>	<p>It is the period when no more significant legislative changes are performed and the effects of previous measures are manifesting stronger, by recognising the Romanian public accounting system as one in accrual basis. The adaptation of professionals to the accounting environment is improved, the group of professionals grows younger and changes of mentality and traditions take place. Under the positive influence of education, the actions taken by the professional body and the experience accumulated in the previous stages, the new euro-international concepts are managed better. Romania's accession to the EU has brought in front of the accounting professional issues of attitude, reasoning, ethics, and strategy. The theory, practice and experience in the accounting field provide alternatives which the accountant must assess and choose.</p>
	<p>The public accounting system moved very slowly from the socialist practices, did not take into account global changes, as it responded only to a very limited extent to the need of information of internal and external users, not being harmonised with international standards in this field. Information contained in the financial statements, in the income statement, is presented in a completely different form compared with that of economic entities, causing many difficulties for both practitioners and users of accounting information.</p>	<p>In the sphere of accounting information users, the changes are minor, as the cash basis system is the pre-dominant reporting system, with certain adjustments required by the accounting transition to accrual basis.</p>	<p>Besides the state as the main trainer and user of financial statements, investors and creditors are also becoming important stakeholders. The transformation of public institutions into entrepreneurial entities, generated by the need of resources and correspondence with the area of economic entities makes transparency of public funds use a concern both of the regulatory body and for the accounting professional. Creating a legal basis for supporting financial statements disclosure on the websites of public institutions increases the citizen's involvement in assessing the activity of state institutions.</p>

(continued)



Table 1. (continued)

Analysis factor	Post-communist period		
	Stage 1 1991–2001	Stage 2 2002–2005	Stage 3 2006–present
PROFILE OF REGULATIONS (2.1)	<p>The accounting system is still reminiscent of the communist accounting system. On the one hand the Romanian accounting system for economic entities has been reformed, thus answering the users' need of information, as well as requirements for harmonisation with the European Directives and International Accounting Standards, but on the other hand public institutions still use the same chart of accounts as in the socialist period, adopted in 1984, only modified to meet the momentary requirements. The accounting system is cash based and it reveals a budgetary result (financial) based on the difference between the received cash and the paid cash. The set of accounting regulations is enforced by a state body, Ministry of Finance, business and accounting profession being subject to these requirements. The state acts as a preferential user of accounting information, given the fact that the financial statements are structured so that they are of use exclusively to the state.</p>	<p>During the EU accession process, through the Document of position at chapter 11 'The Economic and Monetary Union', Romania took responsibility for reporting the data of public finances according to the provisions of the European Accounts System (SEC 95), and for adopting the accrual accounting. A new objective of financial accounting was fixed – the faithful representation of the patrimony, the financial statement and results – and principles that could sustain it were introduced (prudence, conformity with the rules, sincerity). Elements specific for the accrual accounting system are starting to be implemented in the cash accounting system (e.g. impairment of public institutions' assets needed to reflect physical and technological depreciation; risk coverage/provisions for reversible depreciation of assets/value adjustments; book accounts payable and account receivable at the moment the transaction occurs). Legislative projects are issued as a basis for negotiation between legislators and practitioners (13 budget owners are undergoing parallel approaches of cash accounting versus accrual accounting). IPSAS elements are found in their structure as the foundation of implementing accrual accounting.</p>	<p>The current accounting system in force since 1 January 2006 is accrual based, and international standards are reference for certain elements. The IPSAS' standards considered the foundation of new accounting regulations are: IPSAS 1 'Presentation of financial statements', IPSAS 2 'Cash flow statements', IPSAS 12 'Inventories', IPSAS 17 'Property, plant and equipment', IPSAS 19 'Provisions, contingent liabilities and contingent assets'. In the case of Romania, out of the 38 total IPSAS standards issued by the IPSASB until present, there are a total of five standards mainly presented in the national legislation.</p>
PRACTICES (REGULATIONS APPLICATION) (2.2)	<p>Accounting practitioners are still dependent on normative acts. There is a lack of correlation between the evolution of Romanian public accounting system (cash based) and the transformation of the Romanian society, generated by renouncing communist principles.</p>	<p>It is difficult to assess the needs of a public sector according to rules implied by economic principles in a society where the state moves from being a dictator into a partner for the citizen. This period is difficult both for theoreticians and for practitioners. The former must have the ability to adapt the existent amount of information to the characteristics of national public accounting while the later must understand and measure the practical aspects of previously stated theories. The 13th budget owners step in and connect theory with practice in the sense that they apply theoretical requirements and based on them they can make observations which are ultimately processed by theoreticians with the end result of improvements made in the accounting system.</p>	<p>There is a larger closeness between the regulations and practice, in comparison with the previous stage. By applying the requirements of new accounting regulations passed through the filter of professional judgement, the role of accounting deepens, as it becomes an information source needed by internal and external users.</p>

(continued)

Table 1. (continued)

Analysis factor	Post-communist period		
	Stage 1 1991–2001	Stage 2 2002–2005	Stage 3 2006–present
PROPAGATION (OF REGULATIONS) (3)	<p>Because Romania is in a latent phase, subsequent to the transition from the communist regime, the public accounting system is obsolete, outdated and within it there are still elements specific to the communist accounting system.</p>	<p>The institutions' transformation process was a consequence of certain external pressures rather than an outcome of public sector development and other internal factors. In 2002 the reform of public accounting and its harmonisation with the European and international regulations became mandatory in the context of Romania's accession to EU. Thus, the political factor was decisive in the transformation process. On the other hand, the dependence on financing resources necessary for the regeneration of the public sector, which led to a dependency on external financial assistance and to the ensuring of the accountability for those resources, is another factor. International financial institutions (WB, IMF) ask for financial statements of the public sector based on IPSAS. The accounting assistance was provided by the EU and specialists from Glasgow Caledonian University (UK). It was the beginning of the accrual basis influence in the Romanian public accounting environment.</p>	<p>IPSAS are constantly spreading around the world. International organisations such as the United Nations, the OECD, NATO and others are also in favour of their implementation. At the basis of this support there is the need for common accounting language, a guaranty for transparency, efficiency and flexibility in the public sector. In Romania the new accounting system is based on European Directives and the European System of Accounts (ESA 95), with elements of the International Public Sector Accounting Standards (IPSAS), which represents a sign of obvious progress.</p>
PRODUCTS (4)	<p>Non-rhythmicity was noticed between the accounting regulations and the signals of the public sector. Accounting is still seen as a tool for the state to collect and distribute resources in a centralised, totalitarian manner.</p>	<p>Besides some inconsistencies, globally, the role of accounting has changed from an instrument of control used by the government to an instrument more and more relevant to the entrepreneurial environment of the public sector. In the legislative projects the objective of public accounting enriches by comprising budgetary income and expenses, which reflect received income and paid expenses (cash basis), also general accounting based on the principle of recognising rights and obligations, which reflects the evolution of the financial and patrimonial situation and also budget deficit or surplus (accrual basis). There is greater concern for disclosing the financial statements specific to the public sector in a similar form to financial statements specific to economic entities.</p>	<p>A favourable evolution of the accounting profession and of the educational system can be observed, as a qualitative interpretation, to the benefit of the users of financial reporting. As a consequence of users' demand accounting services diversify. Accrual basis financial statements allow internal and external users to assess: the accountability of the public institution for the resources it controls/manages; the performance, financial position and cash flow statement; implications triggered by decisions made in relation to resource usage or activities connected to other economic entities/public entities. However, elements specific to cash-based accounting are still present to a limited extent (e.g., budgetary accounts necessary in the establishment of the budget execution account).</p>

(continued)



Table 1. (continued)

Analysis factor	Post-communist period		
	Stage 1 1991–2001	Stage 2 2002–2005	Stage 3 2006–present
PROFESSION (5)	In 1992 the accounting professional association, the Body of Expert and Licenced Accountants of Romania (CECCAR), was re-established, created in the interwar period and abolished in the communist period. It was acknowledged as a self-governing legal entity in 1994 when the settlement of the liberal profession in Romania began.	The accounting profession is developing at the administrative level (42 CECCAR branches), educational level and in what concerns the national and international representation of Romanian accounting professionals.	CECCAR is acknowledged by the international bodies (becomes an IFAC and FEE member). It supports the access to the profession and provided both quantitative and qualitative training.
	<p>The accounting profession is found under the domination of the legislative act. The Romanian regulations do not offer too many alternatives, maintaining their regulatory explicit nature. It is acknowledged that IPSAS standards recommend and provide the possibility to choose between accounting treatments or application of a policy established by professional judgement, correlated with the regulatory requirements. As a result, in the Romanian legislation the professional judgement manifests rather uncertainty. This should be encouraged by the involvement of the representative body of the accounting profession CECCAR. We take into account, however, that throughout public accounting's history, the accounting profession's role was more consultative, the effective decisions being taken for totally different reasons (political, social, economic). Moreover, the existence of CECCAR is the result of political decisions which were aimed its establishment (1921), then its dissolution by the communist regime (1951), and its re-establishment (1992) after the Revolution, when the communist regime fell (1989).</p>		

*Sources: Ionescu (1997), Calu (2005), Dascalu et al. (2006), Cemar (2007), Nistor, Suceala, Matis, and Ienciu (2008), Deaconu et al. (2009).

¹IPSAS references are available on <https://www.ifac.org/public-sector>

subject. The meaning of those elements in our approach – practices, propagation, product and profession – is presented below.

The *people* (3), as factor analysed, is represented by the accountants, which are professionals trained in an educational system in high schools and universities specialised in the accounting field.

The factor *practices* (4) represents according to Carnegie and Napier (2002) an important part of accounting that supports the idea that there is no essential characteristic that delineates the concept of accounting as practice and concepts. In our study, we distinguish between the two sides of practice: on the one hand there are the regulations (*de jure* accounting) (in Table 1, Profile of regulations, item 2.1), and on the other hand there is the application by the professionals of those regulations (*de facto* accounting) (in Table 1, Practice – regulations application, item 2.2).

The *propagation* (5), as analysis factor, highlights in our study the interaction of accounting with the external environment. Under current conditions, accounting is seen as a common language necessary for ensuring transparency, efficacy and flexibility of the systems, as international referentials and legislation claim.

The factors *products* (6) and *profession* (7) capture the changing role of accounting from an instrument of control used by the government to an instrument more and more relevant to the entrepreneurial environment of the public sector. The influences of the external users are obvious on the quality and on the way in which information must be presented by the *profession* as a product in front of those interested (in Table 1, items 4 and 5).

The analysis factors are discussed for each stage, and sometimes for two or for all the stages, with the present research focusing on the third one, 2006–present. This last stage reflects a ‘settlement’ of accounting regulation and practice during the sinuous Romanian post-communism path, reflecting the current situation of the accounting system.

Overall, as Table 1 shows, there has not been a strong correlation between the choice for accounting standards (rules) and the economy’s level of development, particularly in the first two stages. According to Lehman and Tinker (1987), accounting is far from being apolitical. Until the start of the process of accession to the EU with the direct request to the Romanian legislator for restructuring public accounting by combining elements of cash-based accounting with accrual accounting items, e.g. revaluation and depreciation of public institutions’ assets, the establishment of adjustments for depreciation, as well as other elements that define accrual accounting (second stage), then the latency of public accounting is observed (first stage). The national accounting system’s reference to the international regulations (third stage) also has a political foundation associated with economics. Because of its need for financial resources in order to reform the public sector, the Romanian state had to seek foreign loans. A number of financing organisations (e.g., IMF, WB) are requesting financial statements be disclosed according to IPSAS. The argument behind this fact is determined by the confidence in their own valuers/analysts that no longer have to generate costs for conversion of financial statements from different countries, and also the need for international harmonisation. So, if IPSAS would not have been applied, this would have affected the utility and relevance of financial reporting and thus, the quality of financial information in Romania.

Involved in this process, the accounting professionals must cope with the pressures of change, they must adapt and accept that professional judgement is prevalent before the accounting regulations. The enforcement of legislation in Romania (see the Appendix) must

support this vision and broaden the permissive nature of regulations. On the other hand, the contribution of professional bodies is important, given that the educational system trains expert accountants, but later on professional bodies improve the competencies of these expert accountants.

3. Conclusions

This research investigated the changing process of the public accounting system in the case of Romania as an emerging country, having a longitudinal approach, which covers the post-Communist period (between the years 1991 and 2015). It identifies, separates into stages and analyses this recent public accounting history in order to see the alleged benefits of the transition from a cash-based public accounting system to an accrual-based system in relation to the development of the environmental factors that form an accounting system.

During the analysed period (1991–2015) there are stages from the period prior and subsequent to the implementation of the accrual based accounting system. Romania distinguishes itself through an accounting system that started from the communist values, but the aim of change represents a developed accounting system where IPSAS are the support for international harmonisation. The historical stages we identified for the evolution of the public sector accounting (1991–2001, 2002–2005 and 2006–2015) overlap the timeframe specific to economic entities in the process of implementing an international reference (IFRS) (Deaconu, 2012), but the intensity and dynamics of change are more rapid and intense in the case of public entities. In support of this argument we mention that, starting with the period 2002–2005, the Romanian government requests the implementation of IFRS for the companies that were considered large.

Having a framework based on Carnegie and Napier's approach (2002), the factors that integrate the accounting histories, such as: period, place, people, practices, propagation, products and profession are presented in the study and particularised for the case study of Romania. The analysis of the Romanian public accounting system's evolution was performed considering the three historical periods during which the combination of influential factors was viewed through the contribution and influence over change from the point of view of public management.

The Romanian accounting system has had a fluctuating evolution during this period, going from a latency phase, in cash bases, specific for the first time period, to an agitated period (the second period) in which changes succeeded rapidly and had the purpose (the third interval) of creating an accrual accounting system, at the level of regulations. This decision was taken despite all controversies, especially in terms of cost in the international context and particularly for emerging countries, and it is explained as a result of Romania's accession to the EU. The accession process triggered new requests for the spread of accrual accounting in the public accounting system, a system supported by the explicit implementation of certain IPSAS since 2006. Being part of the management system, accounting could not be excluded from the general public reform generated by the accession to the EU.

In conclusion, the transformation process of the Romanian public accounting to this date is not perfectly delimited as an accrual system. It can be categorised as a hybrid accounting system, which contains elements specific to IPSAS (accrual accounting), and

cash accounting, respectively (e.g., budget execution account), and is thus a mixture of rules and principles. This situation is also explained by the fact that the Romanian public regulations in accordance with IPSAS have taken only a part of its stipulations. The reference to IPSAS, a base for transition, is improvable, given the fact that in the Romanian legislation there are references to five out of the 38 existing standards. This process is also supported at the European level through the Eurostat report (Ernst & Young, 2012) which states that depending on the proximity of Member States' existing accounting standards to IPSAS, the implementation of public accounting references might require reforming some of public accounting systems. The process of developing and implementing EPSAS at EU level emphasises this need. However, the Romanian public accounting system is following a clear upward trend during the three analysed periods, managing to evolve from a 'Cinderella' of the national accounting framework (first stage) into a contemporary (third stage) for which the harmonisation with the international reference is still a concern. We believe that future actions in this direction should be sustained, among other things, through legislative stability, through careful management of the resources necessary for the implementation of new elements specific to accrual basis, and respectively through civil servants' professionalism.

Sustaining the usefulness of our study, we show that in the process of Europeanisation/internationalisation, the public sector can no longer be seen in isolation, as being relevant only at national level. Our knowledge of its specific aspects, namely the evolution of the accounting system and of the factors that have marked the transition (in Romania) places the study in the sphere of interest of theorists interested in analysing emerging countries, members of the EU, but also in the sphere of interest of practitioners who manage to find justifications and solutions to identical problems in their national systems. It is a study that achieves a longitudinal approach of the Romanian public accounting system's evolution, during a time in which we find both the reminiscences of the communist stage and the pressure to adapt to international trends. Therefore, we believe it will be a reference base for international literature in the field.

The results of our research should be interpreted in light of a number of limitations, some of them leading to further research perspectives. First, another qualitative methodology, instead historiography, or a quantitative one may enhance our results in order to better evaluate the advantages and disadvantages of accounting accrual system implementation in Romania and determine if the benefits are superior to the overall effort generated by the change. Secondly, the historical overview was confined to a single country, thus narrowing the international relevance of its results.

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Appendix. Accounting rules affecting the Romanian context in the post-communist period, 1991–2015, classified according to historical stages, in relation to the IPSAS application period

Period	Name and date of the act	Subjects of mandatory application	Major contents concerning financial reporting
1991–2001	Law no. 10/1991 on Public Finances was a real financial charter of Romania.	Public institutions	The major part focuses on the principles of establishing, approval and execution of the national public budget. The Law introduces the concept of state budget instead of single national budget. For the first time, the law gives a true autonomy to the budgets that comprise the general budget.
	Law no. 72/1996 on Public Finances (modifies Law no. 10/1991)	Public institutions	Establishes regulations for identifying, managing, using and controlling the financial revenues of the State, territorial administrative units and public institutions.
	Government Resolution no. 78/1992 that authorises the Ministry of Public Finance to establish treasuries in subordinate bodies, namely: County General Districts of Public Finances, Bucharest General District of Public Finances, financial administrations.	Public institutions	This was one of the coordinates of the financial system's reform in Romania. Through its own treasury the state moves directly or indirectly available funds, while ensuring the smooth performance of the Ministry of Public Finance and its territorial units. Moreover, through the public finances treasury, the efficient use of state resources by public institutions is assured along with the conformity of the funds' destination approved by the budget law and consolidation of budget owners' accountability related to public funds management.
2002–2005	Accounting Law no. 82/1991		Mentions the role of the public institutions accounting for providing information to the budget owners regarding income and expenditure budgets, assets under management, as well as preparing the annual general account of execution of the state budget, the annual account for execution of the state social security budget, special funds and annual accounts for execution of local budgets.
	Government Resolution no. 32/2002 regarding the approval of the Activity plan for 2002 and 2003 of the government programme OMPF 1,746/ 2002 for approval of the methodological norms regarding the organisation and management of accounting in public institutions, the chart of accounts and the monograph of the main accounting operations.	Public institutions	The Ministry of Public Finance had the task of restructuring budgetary accounting by supplementing cash-based accounting with accrual-based accounting. It is mandatory for 13 budget owners to keep records simultaneously both in the cash-based system and in the accrual-based system. The aim is to identify possible inconsistencies between theory and practice. Applicable experimentally since 1 January 2003 for 13 budget owners.
2002–2005	OMPF no. 1,792/2002 for approval of the methodological norms regarding engagement, liquidation, allocation and payment of expenses		Establishes recognition criteria for expenses, and also the organisation, book keeping and disclosure or budgetary and legal obligations.
	OMPF no. 1487/2003 for approval of the methodological norms regarding revaluation and impairment of fix assets in public institutions and legal entities without patrimonial purpose	Public institutions. Legal entities without patrimonial purpose	Requires revaluation of fixed assets starting with the fourth quarter of 2003. Requires recognition of impairment of fixed assets starting with 1 January 2004.

(continued)



Appendix. (continued)

Period	Name and date of the act	Subjects of mandatory application	Major contents concerning financial reporting
2006–present	<p>OMPF no. 1.917/2005 for approval of the methodological norms regarding the organisation and management of accounting in public institutions, the chart of accounts for public institutions and their instructions for application</p> <p>OMPF no. 3.471/2008 for approval of the methodological norms regarding re-evaluation and impairment of fixed non-current assets in public institutions</p> <p>OMPF no. 1.187/2008 that modifies and completes the methodological norms regarding the organisation and management of accounting in public institutions, the chart of accounts for public institutions and their instructions for application, approved by OMPF 1.1917/2005</p> <p>Order no 529/2009 that modifies and completes the methodological norms regarding the organisation and management of accounting in public institutions, the chart of accounts for public institutions and their instructions for application, approved by OMPF no. 1.1917/2005</p> <p>Order no. 2021/2013 that modifies and completes the methodological norms regarding the organisation and management of accounting in public institutions, the chart of accounts for public institutions and their instructions for application, approved by OMPF no. 1.1917/2005</p>		<p>Establishes the framework for the accrual-based accounting system, with important significance to assets, debts and equity. Applicable since 1 January 2006.</p> <p>Determines that the revaluation process of fixed assets in public institutions should carry on until the end of 2010. Recognises streamline impairment as the only impairment method.</p> <p>Creates new accounts related to non-reimbursable funds need for settlement with the European Community, without affecting the characteristics of the existent accounting system.</p> <p>Includes only modifications related to terminology or introduction of new accounts, without affecting the characteristics of the existent accounting system.</p> <p>Includes only modifications related to the terminology or introduction of new accounts, without affecting the characteristics of the existent accounting system.</p>