IPSAS and the application of these standards in the Romania

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Abstract

IPSAS appliance gives public law entities a greater significance due to the comparability with the general accounting regulations, recognized internationally for reporting annual accounts. A greater transparency raises the quality of financial management, facilitates the relationships with funders and simplifies communication with the wide public interested in Romania’s economy. Some of the accounting activities from the public sector do not provide an insight into the real situation of assets, finances and incomes (a real and clear image). This makes it difficult to evaluate accounting systems for the wide public and politicians. The introduction of IPSAS in public accounting in Romania provides assistance through uniform standards. Public management represents the basis for effective control and monitoring processes in public administration. IPSAS helps public management to improve the quality of financial information, simplifies the internal and monitoring control of public institutions and adds value to the financial information regarding economic profitability. The authors aim to present in a comparative way the status of implementing international accounting standards in public and private sector of activity of the state.

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1. Compatibility standards for public sector with private sector standards

Accounting systems usually public and private institutions are incompatible. Implementing an accounting system based on internationally recognized standards can reduce the interface problems.

2. Comparison and evaluation

In the world there are many different legal regulations on accounting systems related to public sector. The annual accounts of central or local authority of a State (e.g.: Romania) are not comparable with the annual accounts of other local authorities or other State (e.g.: Germany or USA). Public institutions usually depend upon funding from the state budget or through credit and loans. A standardized accounting system can simplify the process of evaluating the effectiveness of public institutions worldwide.
Table 1. Comparison the Romanian accounting system Harmonization with IPSAS (processing by source “Comparison of IPSAS and HRM” – www.ipsas.org)

<table>
<thead>
<tr>
<th>Items</th>
<th>Harmonization of Romanian accounting system</th>
<th>International Public Sector Accounting Standards IPSAS</th>
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</thead>
<tbody>
<tr>
<td>Purpose/Aim</td>
<td>The deepening financial decentralization and decision-making institutions; Increasing complexity of IP (public institutions) activity and the share of economic activities; Harmonizing chart of accounts and financial statements of companies with IP; Harmonization of IP accounting system with international regulations; Changing the budget classification to evaluate performance in use of public money (program budgets); Introducing the obligatory character of management accounting management for tracking costs budgeted programs.</td>
<td>Compiling rules for specifying individual topics of accounting in public authority budgets. Creating transparency for stakeholders True and fair view principle</td>
</tr>
<tr>
<td>Components of the annual accounts</td>
<td>Balance; Patrimony result account; Statement of cash flows; Statement of changes in net assets / equity; To the financial statements (accounting policies and explanatory notes); The budgetary execution account.</td>
<td>Balance sheet Profit &amp; Loss Account (P&amp;L) Cash flow account Proof of capital resources Notes</td>
</tr>
<tr>
<td>Application</td>
<td>Defining the most important balance sheet items. Uniform accounting system (types of costs, functions). Recommendation for applications of depreciation rules. Also instrument for loan approval.</td>
<td>Based on practice and empirical values of private sector companies. Can thus be constantly supplemented. Every standard has to be complied with to achieve IPSAS conformity.</td>
</tr>
<tr>
<td>Adaptablety</td>
<td>Rather, it is a prolonged process. Politically, laws, ordinances and memoranda of government have to be redrafted.</td>
<td>Constant reformulations of existing legal framework based on IFRS</td>
</tr>
<tr>
<td>Consolidation</td>
<td>The bottom-up approach prescribes for every central or local authority (political, school, church authority) that all services rendered by the legal entity without its own legal form (including dependent institutions) have to be compiled in one accounting system. No definition of consolidation circle.</td>
<td>IPSAS prescribe how consolidation is to take place, and also defines the consolidation circle (top down).</td>
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<td>Rating / Benchmarks</td>
<td>Relatively difficult because there are few standardized accounting rules (uniform accounting system), each public entity has accounting differently regulated under their respective legislation. Expense, therefore higher for comparable figures.</td>
<td>Due to accounting benchmarks can be developed comparable situations by public authorities. This creates greater transparency for rating.</td>
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<td>Conclusion</td>
<td>Annual accounts under IPSAS include not only the balance sheet, profit and loss account and cash flow account, they also contain proof of the capital resources and clearly structured notes. This composition of the annual accounts is comparable with that of private sector companies. This method allows a regular reader of the review quickly and efficiently gains an understanding of the financial statements of public institutions. Furthermore, it pays particular attention to consolidation.</td>
<td></td>
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</table>

3. Evolution of public accounting reform

3.1. The international sectors

3.1.1. Standards of International Public Sector Accounting (IPSAS) issued by International Federation of Accountants (IFAC)

IFAC’s mission is to serve the public interest by: contributing to the development, adoption and implementation of high-quality international standards and guidance.

IFAC’s goal is to:
- Provide a common language around the international financial community;
- Facilitates the work of preparing, financial statements audited or use;
- It is the bridge between public and private entities;
- Help ensure a common basis for accounting and reporting in all countries, resulting in better and more efficient financial analysis;
3.1.2. The scope of the IPSAS

Provides a cash transition to accrual accounting by modelling:

- Helps reduce costs as accountants, auditors, financial analysts, investors, and regulators will no longer be forced to convert or to reconcile financial statements of a set of standards to another set of standards.

3.1.3. Features IPSAS

- Establish requirements for recognition, measurement, description and information provided on transactions and events in general purpose financial statements.
- Are designed to apply to general purpose financial statements of all public sector entities.

3.1.4. History of IPSAS

In 1996, IFAC – PSC (Public Sector Committee) through its public sector launched a project to develop a set of accounting standards for public sector entities in the area known as the IPSAS. After July 31, 1998, PSC issued 32 IPSAS standards most of inspiration IAS, based on model-based accounting and commitments.

3.2. The accounting sectors in Romania

3.2.1. Planning and adoptions of standards in Romania

In Romania, Action Plan to the Government Programmer for 2000-2004 included the restructuring of public sector accounting, by:

- Improving budget classification
- Prioritization of economic classification and functional classification from institutional
- Supplementing the cash based accounting to accrual accounting.

In order to achieve compliance with ESA 95, The Ministry of Finance promised implementation of accrual in the public sector in Romania since 2003.

In the fourth quarter of 2002 Ministry of Finance promised to prepare:

- Rules on public sector accounting
- Accounting rules on asset management organization and public institutions,
- Chart of Accounts for public institutions

Reflected in accounting rules on the main economic operations.
3.2.2. Planning and adoptions of standards in Romania

Since 2000 the Romanian government thought a restructuring program and implementing a new public sector accounting, but these needs begin to reconsider the first laws in 2003. Public sector reform was established in three major steps, namely:

**Step 1**

**Ministry of Finance Order no. 1746/2002**

- Approved norms of organization and management of IP assets accounting, chart of accounts and operations of the main monograph;
- The provisions apply to a total of 13 experimental authorizing officers since the first half of 2003, in parallel with existing regulations;
- Starting January 1, 2004, to be applied to all IP.

**Step 2**

**Government Ordinance no. 81/2003 and Ministry of Finance Order no. 1487/2003**

- Enter depreciation to reflect the real value of goods and presentation of the financial statements of a fair value of assets;
- Enter revaluation which was intended to bring assets to current cost or value entry updated.

**Ministry of Finance Order no. 520/2003**

- Registration requires the accounting of rights and obligations to any entity when their finding.

**Step 3**

**Ministry of Finance Order no. 1025/2005**

Introduce new budgetary classification, applicable in 2006 to comply with the requirements of ESA 95 standards of international bodies compilation and presentation of government finance statistics, to improve structure and transparency of operations on public funds and the implementation of Romania's Schengen Community's public finances, assumed the position paper on Chapter 11 - Economic and Monetary Union.

**Ministry of Finance Order no. 1917/2005**

Marks the transition from effective and permanent system based on cash accounting to the accrual, beginning January 1, 2006.

**Conclusion**

Public Accounting Reform aims to transfer the accounting principles of private sector management techniques to public sector management unit.

Public institutions have undergone many changes imposed by the transformation of economic and social. On the one hand, institutions have been affected by increased financial decentralization and decision, which received a relative autonomy in developing a set of complementary activities, and on the other hand, have been changed by the public funding by increasing the weight of additional sources of budgetary financing.

Based on these changes in public institutions across the public sector, Romania has had to implement a new public accounting system with the ability to face a more realistic reflection of the general elements of all these changes. Transition raises many questions, so if the total renunciation seems simple cash accounting, experience of other countries shows that, step by step in the adoption of techniques of accumulation is more convenient, because the risk of destabilizing the financial system is too high.

However, the introduction of the accrual budgeting in public sector organizations in Romania is not a single phenomenon. Rather, it shows that it is a common pattern in most countries that have introduced accrual accounting (OECD, 2000, and Luder and Jones, 2003). In some countries, accrual and cash-based budgeting is considered a permanent solution, while in other countries, accrual budgeting is seen as a second natural step after the introduction of accrual accounting.

It is obvious that implementation difficulties are perceived as obstacles to its implementation feasible successful Romanian public sector. However, long-term benefits would exceed costs incurred in implementing the system.

The involvement of human element in the policy change is very important to the success of any reform, because people are affected by these changes.
This parallels the conclusion drawn from the experiences of other countries in the implementation of accounting reform. For example, the UK experience has shown that not all private sector accounting techniques are suitable for use in the public sector. It is also dangerous to assume the superiority of private methods to the methods of public sector without a critical evaluation (Mellet and Hodges, 2003). It should be noted that "accruals" is not a "magic solution" to improve public sector performance. It is simply a tool to obtain better information about the true cost of public sector institutions. It must be used effectively and in tandem with a series of management reforms, others, in order to achieve the desired improvement in public sector decision making.

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