

# ACCOUNTING REPORTS AND BUDGET PROCESS IN THE ROMANIAN PUBLIC SECTOR BETWEEN CONVERGENCE AND CHALLENGE

Professor PhD **Elena HLACIUC**

“Ștefan cel Mare” University of Suceava, Romania

[elenah@seap.usv.ro](mailto:elenah@seap.usv.ro)

Lecturer PhD **Marian SOCOLIUC**

“Ștefan cel Mare” University of Suceava, Romania

[marians@seap.usv.ro](mailto:marians@seap.usv.ro)

PhD Student **Geanina MACIUCA**

“Ștefan cel Mare” University of Suceava, Romania

[geaninasth@yahoo.com](mailto:geaninasth@yahoo.com)

PhD Student **Antonela URSACHI**

“Ștefan cel Mare” University of Suceava, Romania

[antonelaursache@yahoo.com](mailto:antonelaursache@yahoo.com)

## Abstract:

*Starting with the 1<sup>st</sup> of January 2014, the Romanian public sector has undergone a long transformation process: the change in the order of the organization and management of public institutions accounting, the chart of accounts and the instructions for its implementation, the implementation of an electronic reporting system for financial statements, the automatic verification within the system of whether the payments are within the budget or not, providing information on revenue achievement and payments made. Other measures are to be implemented such as the electronic signing by the credit release authorities of the revenue and expense budget. Even if these measures were for testing purposes in 2014, they influenced the work of the public sector professional accountant, on the one hand, and the public sector as a whole, on the other hand.*

*In the present paper, we will present the effects of these changes on the budget transparency and especially on budgetary efficiency and the accounting reports.*

**Key words:** budget, public sector, reform, convergence

**JEL classification:** M41

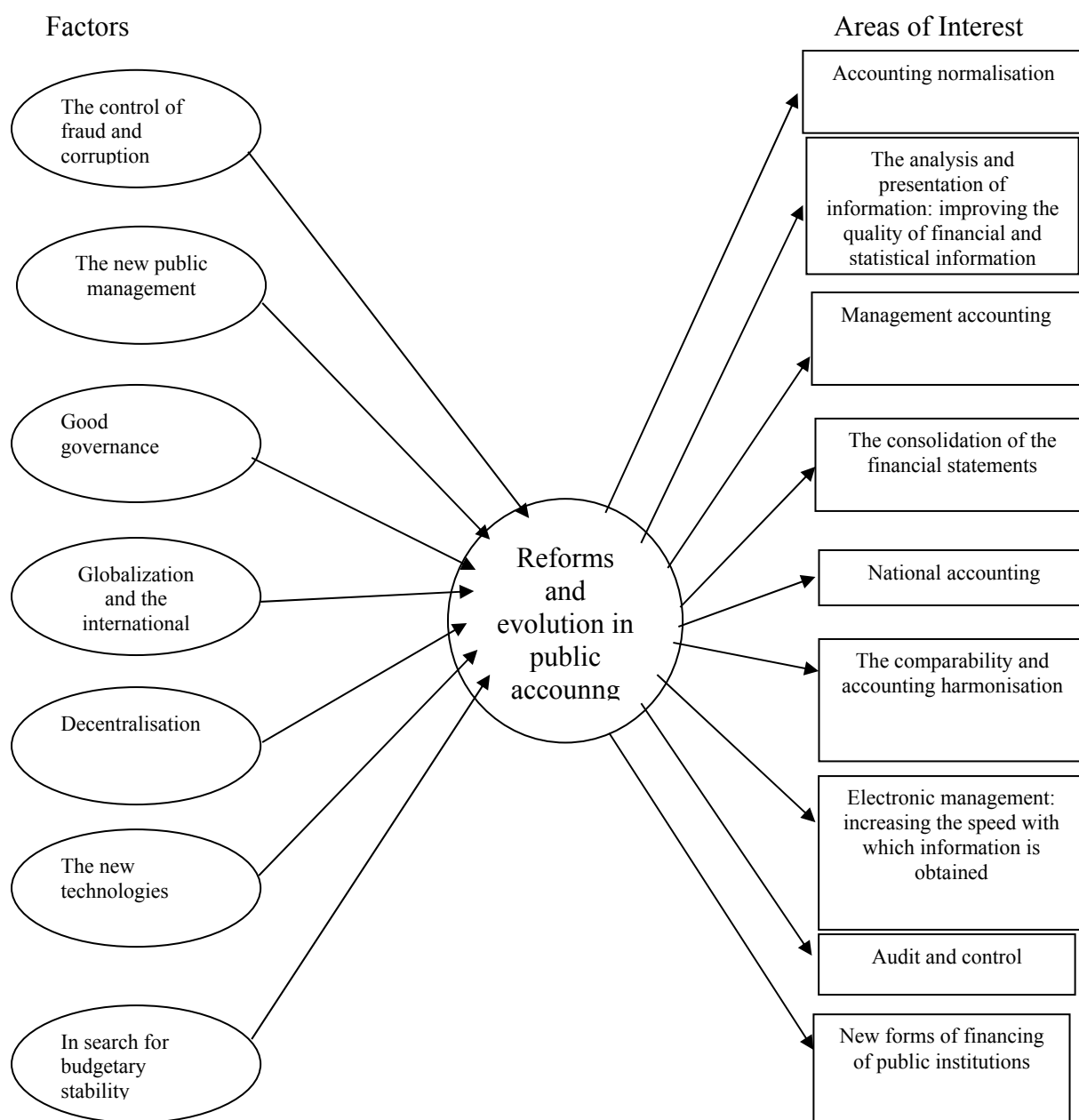
## INTRODUCTION

In recent years, efforts have been made to modernise the accounting system in the public sector in most OECD countries. The main goal of these efforts is firstly the need to obtain an efficient management of public resources. The global financial crisis has put the governments of various countries in the situation of being unable to effectively control the budget revenues and expenditures, which means that the modernisation efforts in the field must continue.

The main aspects which have characterised this reform process were aimed at the implementation of accrual accounting and the introduction of techniques to improve the management of public funds by the government (Brusca, 2010). As a result, the public sector worldwide has evolved to meet the stability requirements (Diamond, 2002).

Often, due to the unforeseen economic circumstances, the budget must be adjusted during a financial year and if we take into account the fact that the decisions regarding public expenditures have an impact on the economy before the payments are made (according to the Romanian legislation, for an expenditure to be paid, it must go through certain steps regarding: employment, liquidation, authorisation and, later, payment) then it is easy to understand the need to monitor all the stages, including those of a non-monetary nature. Therefore, with the compliance and improvement of the mechanisms which ensure the objectives of macroeconomic stability, in the last

thirty years, the OECD governments have focused their attention on the goals regarding efficiency and effectiveness (OECD, 1994, 1995). The factors which determine the need for a reform in the public sector as well as the areas of interest which arise from these reforms are shown in figure no. 1.



**Figure nr.1- Areas of interest in accounting and management in the public sector**

Source: processed after Brusca, I., (2010), *Treinta años de investigación en contabilidad y gestión pública en España*, Revista de Contabilidad, vol.13, no. 2, p. 182

It is noteworthy that in the public sector, the annual and quarterly financial statements show the relationship between the approved budget, the items of expenditure (budget items according to the economic classification established by the body for accounting normalisation, in Romania's case, the Ministry of Public Finances) and the actual expenses. In this context, the budget commitments would be a solution recommended by the large international organisations.

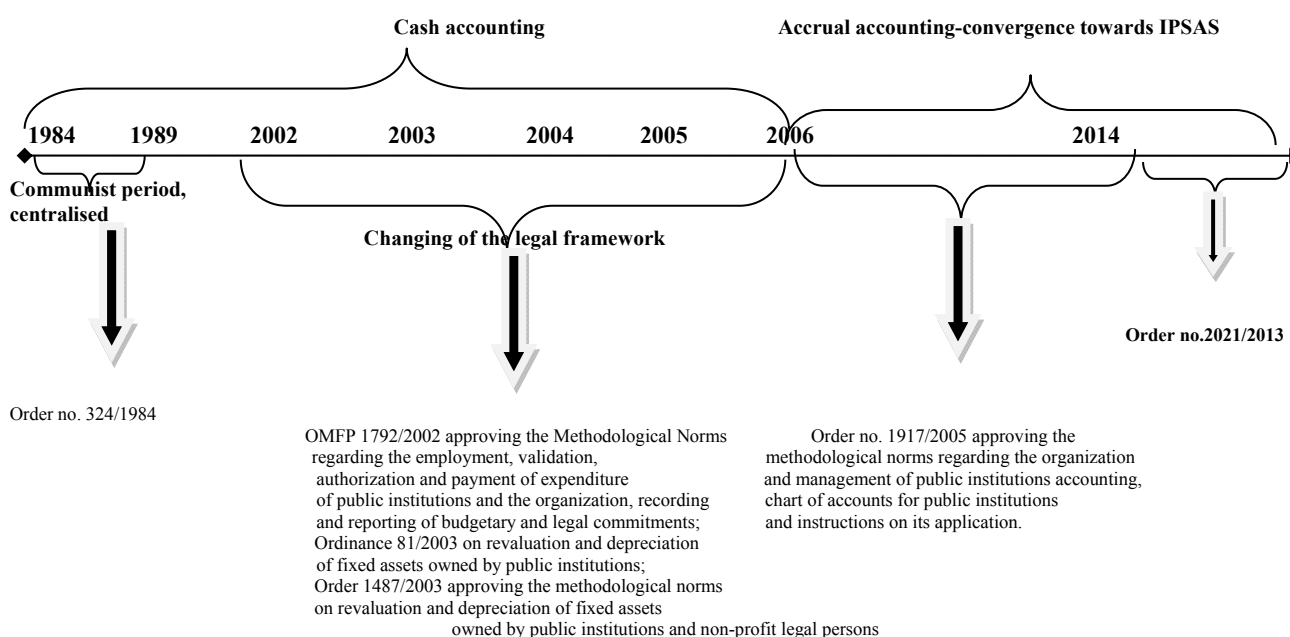
In this context, Romania has made a number of changes in the public sector. In this paper, we will present the latest changes in this regard and our point of view concerning the impact of

these changes on both the professional accountant, as well as on the budget system. For the present study, we have consulted scientific articles published on this topic, papers on accounting and national and international accounting regulations. Moreover, the research is also based on our experience in the implementation of the accounting regulations.

## THE BUDGETARY PROCESS IN ROMANIA – FACING NEW CHALLENGES

Brusca (2010) believes that although the need for the harmonisation of public accounting cannot be justified similarly to the private sector reform, other aspects support the importance of the existence of comparable accounts between the public administrations of different countries. The role of the International Standards for the Public Sector is that of making the accounting systems of different countries convergent at a formal level, because most countries adapt their legislation to these rules.

The Spanish philosopher Jose Ortega y Gasset stated that, first of all, there is a need to do something and then the instrument needed to do so is invented. The same is true in accounting: first we need to make a change and then we invent the method to achieve it (Gonzalo et al, 2013). That was the case with the Romanian public accounting reform. Due to the necessity of joining the European Union, Romania had to initiate a series of reforms, including those in the public sector (fig. 2).

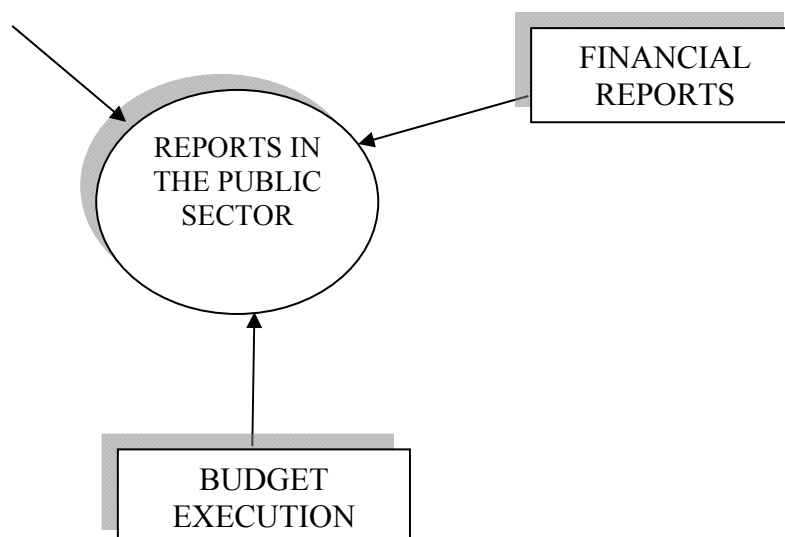


**Figure 2- Short presentation on the evolution of public accounting in Romania**

Source: own processing

The latest stage is that of 2014, when the Ministry of Public Finances launched the implementation process of the national system of verification, monitoring, reporting and control of financial statements, legal commitments and budgets.

In the public sector, the public institutions face the following types of reports: financial reports (in accordance with IPSAS or, as in the case of Romania, with the national regulations convergent with IPSAS), statistical reports and budget execution (fig. 3).



**Figure 3- Types of reports of the public institutions in Romania**

Source: Tiron Tudor, A., (2013), Conferința Internațională Implicarea profesiei contabile în dezvoltarea calității raportărilor financiare din sectorul public (Involvement of the accounting profession in developing the quality of financial reporting in the public sector International Conference), CECCAR, material accessed on the 18<sup>th</sup> of March, 2015, on the website <http://ceccar.ro/ro/wp-content/uploads/2013/11/Implicarea-profesiei-contabile-%C3%AEn-sectorul-public-Adriana-Tiron.pdf>

Without attempting to create discordance between statistics and accounting, we will pay attention to the financial reporting and budget execution. In this context, accrual accounting presents certain advantages, particularly in terms of improving resource allocation and especially in reinforcing the responsibility of managers and increasing the transparency regarding the costs of government activities.

The need to continue the reforms in the public sector and, implicitly, in the reporting system derive from (Alec, 2014):

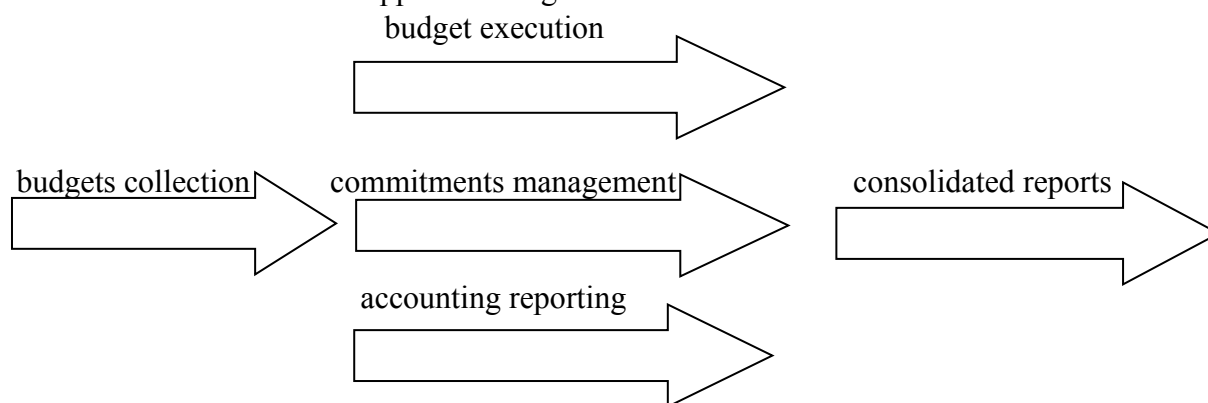
- the obligation to send EUROSTAT the COFOG III level data of the member states of the European Union (implicitly, Romania as well);
- the request from the international bodies for detailed information on the budgetary and legal commitments, budget execution, in the functional and economic profile;
- increasing the speed with which information is gathered;
- increasing the data storage capacity;
- improving the quality of the financial and statistical information.

Thus, the public institutions will need to report the aggregated and individual budgets according to the system's operation procedure, the approval and electronic signature of the credit release authorities of the revenue and expenditure budgets, the provision of information on the income execution rate and on the incurrence of expenditure, the automatic check within the system if the payments are kept within the budget, the collection of the budgets in accordance with the COFOG III standard. In the category of reporting entities we find: the main, secondary and tertiary credit release authority, autonomous public institutions, state-owned economic operators, the local departments of public finance and other public institutions. The main beneficiaries are the international organisations (the World Bank, the International Monetary Fund, the European Commission), internal bodies (the Court of Auditors, the Government, the Parliament, the National Institute of Statistics, the National Bank of Romania).

In this respect, the following were proposed: the development of the cash revenue and expenditure accounts within the treasury at COFOG III level, the control of the legal commitments

within the treasury, the transmission of some standardised analytical balances by each public institution at the MFS level, the elimination of the financial statements' centralisation (aggregation) at the level of the main and secondary credit release authorities, the consolidation of the financial statements (Alecui, 2014). The public institutions will no longer prepare the annexes for the income and expenditure execution accounts, these being automatically generated by the treasury.

Romania has indeed started on this path with timid steps. By issuing Order no. 720/2014 on the execution of the income and expenditure budget of the autonomous public institutions, of the public institutions financed entirely or partially by their own revenues and by the activities which are entirely financed from their own revenues, for these institutions, starting with the 1<sup>st</sup> of July 2014, income and expenditure accounts were opened on the COFOG III budget classification structure. Thus, the state, through its treasury, provides data validation regarding the budget execution of income and expenditure as well as the automatic validation of payments, through their inclusion within the limits of the approved budget.



**Figure 4- The reporting process through the FOREXEBUG program**

Source : The electronic reporting system of the financial statements in the public sector (2014), accessed on 16.03.2015 on the web address <https://chat.anaf.ro/forexebug.../prezentare%20proiect%20forexebug.ppt>

Instead, the process of reporting, approval and signing of the budget within the electronic system has been delayed.

As in the other countries of the European Union, we also notice that, in Romania, the treasury institution, in this case, plays an important role. In France, all payment orders go through the treasury's system, which centralises the data on commitments and payment orders while, in Spain, all transactions which are processed by the treasury's system go through six stages (budget allocation, commitment, verification of actual expenditure, payment requests, payment orders and payment) (Allen and Tommasi, 2001).

## CONCLUSION

If for the Ministry of Public Finances, as the main beneficiary, these changes have a positive result on the budgetary reporting, there is more safety in the data submitted by the public institutions, the time needed to obtain the information is shorter while the professional accountant faces greater challenges. By creating these income and expenditure accounts in the COFOG 3 system, the issues regarding immediately knowing what is available are determined, which leads to finding additional ways to cover this syncope and thus increasing the workload. Furthermore, there are disruptions between the treasury's reasoning and that of the professional accountant, working in a public institution, regarding many accounting issues. Moreover, the public institutions must spend more to adapt the software to the new changes.

### Acknowledgment

This paper has been financially supported within the project entitled „**SOCERT. Knowledge society, dynamism through research**”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**”

### BIBLIOGRAPHY

1. Newberry, S., (2015), *Public sector reforms and sovereign debt management: Capital market development as strategy*, Critical Perspective on Accounting, no.27, pp. 101-117.
2. Allen, R., Tommasi, D., (2001), *Administrarea cheltuielilor publice. Manual de referință pentru țările în tranziție*, OECD.
3. Alecu, G.,(2014), *Dezvoltări și inovări privind raportarea financiară în instituțiile publice din România*, Ceccar, material accesat în data de 08.03.2015 de pe pagina web <http://ceccar.ro/ro/wp-content/uploads/2013/11/Dezvoltari-si-inovari-privind-raportarea-financiara-in-institutiile-publice-G.-Alecu.pdf>
4. Brusca, I., (2010), *Treinta anos de investigacion en contabilidad y gestion publica en Espana*, Revista de Contabilidad, vol.13, no. 2, pp.175-209
5. Sistemul electronic de raportare a situațiilor financiare din sectorul public (2014), accesat în data de 16.03.2015 de adresa de web <https://chat.anaf.ro/forexebug.../prezentare%20proiect%20forexebug.ppt>
6. Tiron Tudor, A., (2013), Conferința Internațională Implicarea profesiei contabile în dezvoltarea calității raportărilor financiare din sectorul public, CECCAR, material accesat în data de 18.03.2015 de pe pagina web <http://ceccar.ro/ro/wp-content/uploads/2013/11/Implicarea-profesiei-contabile-%C3%AEn-sectorul-public-Adriana-Tiron.pdf>
7. Diamond, J., (2002), “Performance Budgeting-Is Accrual Accounting Required”, *International Monetary Fund Working Paper*. Fiscal Affairs Department (WP/02/240).
8. Gonzalo Angulo J.A., Tenant K., Riquelme Alvarado M., Royano Muro L., (2013), El camino hacia la convergencia. Comparacion y analisis critico entre la normativa contable internacional (NIC/NIIF) y la estadounidense, Ed., Edisofer S.L., Madrid, p. 49