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SIMILARITIES AND DISSIMILARITIES BETWEEN THE ROMANIAN PUBLIC ACCOUNTING SYSTEM AND *IPSAS 1 – PRESENTATION OF FINANCIAL STATEMENTS*

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Abstract

Nowadays, the accounting harmonization in the public sector has become a key problem in the accounting world. The need for harmonization is generated by the globalization process, both in the private and public sector. This is the reason why the awareness of international bodies for public sector accounting harmonization is significantly raising. The aim of the paper is to compare the information disclosed by the Romanian legal framework to information disclosed by IPSAS 1 – Presentation of Financial Statements, in order to determine the extent to which Romanian laws took the provisions of this standard that is considered by researchers a significant point of modern accounting. The authors try to establish the extent to which the central Romanian regulations have taken the main provisions from IPSAS 1. The purpose is to discover the similarity degree between these two regulations. This study is useful for the authorities empowered to publish regulations because it helps to determine the most important omissions from IPSAS 1 and find the best solutions for improving the future legislation, in order to be as close as possible to IPSAS.

1. INTRODUCTION

In the last years, the accounting harmonization in the public sector has become a significant problem in the accounting world. The harmonization process would assure high quality of financial reporting and, also, better comparability between accounting systems. Accounting harmonization in the public sector is achieved through International Public Sector Accounting Standards (IPSAS).

IPSAS are published and developed by IPSAS Board of the International Federation of Accountants (IFAC), which is the global organization of the accounting profession. The IPSAS Board focuses on the accounting and financial reporting needs of the public sector whether it is a national, local or inter-governmental organisation. Many IPSAS are close to IFRS, but there are major deviations. IPSAS could not function properly for precise public sector issues (Sanderson & Van Schaik, 2008).

The International Federation of Accountants (IFAC) states that most IPSAS have equivalent International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) on which they are based on. IPSAS have become a reference for the setting of public sector accounting systems, and this is why IPSAS deserve the awareness of accounting policy-makers, practitioners and scholars (Christiaens et al., 2013). The main objectives of IPSAS are the improvement of comparability, reliability and transparency of public accounts. Also, IPSAS could be an opportunity for the European Union Member States to improve their existing accounting systems. (Bellanca & Vandernoot, 2014).

The IPSAS implementation is not compulsory. The governments and national standard-setters have the right to establish the accounting standards and guidelines to report within their jurisdictions. At the same time, IPSASB suggests that IPSAS may be helpful for standard-setters in the development of new standards in order to contribute to a greater comparability (Tiron-Tudor, 2010).

The purpose of this paper is to analyze the compliance between Romanian public accounting laws (*Order of the Public Finance Minister no. 1917/2005 for the approval of Methodological regulations regarding the accounting organization and management of public entities*) and IPSAS 1 – Presentation of Financial Statements. In other words, we analyzed the degree of formal harmonization between Romanian public sector accounting rules and this standard. To that effect, we used the comparative method.

The main argument for choosing the Romanian public accounting system for this comparison is that it is an emerging country, which is crucial for the international bodies empowered to publish regulations. In addition, Romania has experienced some significant economic and structural changes

since the fall of communism in 1989 (Albu & Albu, 2012).

We proposed to establish a similarity level between these regulations and also to identify some solution to simplify the harmonization process of Romanian laws and IPSAS. In addition, we have determined the most-significant omissions from IPSAS 1 that can influence the effectiveness of financial information and have presented our proposals in order to eliminate them. The results indicate the rate to which the Romanian regulations have taken the IPSAS 1 – Presentation of Financial Statements. The paper comprises a brief literature review, the methodological issues, the compliance between Romanian laws and IPSAS 1 and also the conclusions of the study.

The aim of the paper is to compare the public accounting Romanian legal framework - *Order of the Public Finance Minister no. 1917/2005* - with the information disclosed by IPSAS 1 – Presentation of Financial Statements in order to establish a similarity level between them. This comparison aims to determine the extent to which Romania applies IPSAS 1 – Presentation of Financial Statements.

2. RESEARCH METHODOLOGY

Our research focuses on determining the extent to which the Romanian public sector accounting laws define the most-important items described by the International Public Sector Accounting Standards (IPSAS) 1, comparing the Romanian public sector accounting rules with this standard. In other words, our study proposes to measure the formal harmonization degree between these regulations. Romania is fascinating because, since the fall of communism in 1989, it has experienced significant changes, including during the period leading up to it becoming a member of the European Union (EU) to 1 January 2007 (Albu & Albu, 2012). This is the reason why we have chosen this country for our study.

Firstly, in order to summarize the state of the art, we have performed a literature review. Also, the reason why we have chosen this standard for our comparison is that IPSAS 1 is considered an essential point of modern accounting (Bellanca & Vandernoot, 2013). We consider that it is important to mention that IPSAS 1 is based on IAS 1. As we mentioned before in the paper, the IPSAS implementation is not compulsory, and this is the reason why many countries choose to not apply IPSAS and to follow their national standards. However, Ernst & Young (2012) notes that Romania has a compliance rate with IPSAS principles of 51%, percent situated below the average of 63%.

Our study can be seen as a comparison between the Romanian public sector accounting rules (*Order of the Public Finance Minister no. 1917/2005 for the*

approval of Methodological regulations regarding the accounting organization and management of public entities, published by Romanian Ministry of Finance), and IPSAS 1 – Presentation of Financial Statements. This comparison generates two research questions. The first one is the following:

RQ1: To what extent do Romanian public sector accounting regulations define the items described by IPSAS 1?

In order to answer this research questions, we have split every definition found in the standard in a number of significant issues and determined how many of these issues are described by the Romanian legislation, using the following formula:

$$\text{Conformity percent} = \frac{\text{number of elements defined by Romanian legislation}}{\text{number of elements defined by IPSAS}} \times 100$$

We have used this formula for every item defined by IPSAS 1 and taken into consideration within the study, and also, we have calculated the conformity percent for every item described by IPSAS 1. Finally, we have calculated an overall conformity percent. The second research question derives from the first one:

RQ2: What are the elements presented by IPSAS 1, but forgotten by the Romanian legislation?

It is crucial to know what items are considered significant by the standard setters and ignored by the Romanian laws. The results could be used in order to improve the Romanian laws for coming closer to IPSAS 1.

3. THE PREVIOUS CONTRIBUTION IN THE RESEARCH FIELD

There are many studies in the literature that analyze the compliance of National Public Accounting Systems with IPSAS. The adoption of IPSAS by the European countries has become a concerning problem. Ilie & Alecu (2011) have analyzed the degree of convergence between the Romanian accounting laws for public sector and IPSAS, the deviations from implemented standards and also have presented their proposals for implementation of additional standards.

The accounting harmonization is at the origin of the creation of international accounting standards. It makes possible to compare the accounting systems more efficiently around the world. Also, accounting harmonization makes it possible to externalize the financial activities of the public administrations, and it can help the organizations to use data from various countries. Comparability can be realized between countries and within them (Bellanca & Vandernoot, 2013).

The objective of IPSAS 1 is to prescribe the way in which general purpose financial statements should be presented in order to ensure the comparability

both with the entity's financial statements of previous periods and the financial statements of other entities. IPSAS 1 sets out the considerations for the presentation of financial statements, the guidance for their structure and also the requirements for the content of the financial statements prepared under the accrual basis of accounting (IPSASB, 2006).

IPSAS 1 considers that the financial statements must be complete, include a statement of the financial situation, a statement of financial performance, a statement of changes in net assets/equity, a cash flow statement, a comparison of budget and actual amounts and explanatory notes. Also, a series of principles must be met by the public sector entities: the fair presentation, the going concern, the consistency of presentation, the materiality and aggregation, the offsetting and also the comparative information (Cri an, 2014).

The topic of the IPSAS implementation was approached by Benito et al. (2007). The results of the study reveal that the countries with the greater conformity to the IPSASs are New Zealand, Sweden, Australia, the United States, Mexico, Holland and the United Kingdom. If we refer to the local government, all these countries have the conformity indices higher than 75 percent, the mean percent being 85.57 percent. Contrary, the countries with the lower conformity to IPSAS are Argentina, Austria, Switzerland, Chile, Canada, France and Norway. All of these countries have indices lower than 50 percent, and the mean is 35.28 percent. Otherwise, if we refer to the central government, the countries with the greater conformity are Australia, Sweden, New Zealand, Mexico, Portugal and United Kingdom, with a mean of 80 percent. Contrary, the countries with the lower conformity to these standards are Argentina, Italy, Chile, Norway and France, with an average of 23 percent.

The same topic was approached by Christiaens et al. (2010) but just for the case of the European Union. The quantitative research investigates to what extent accrual accounting is adopted in the European countries and the differing level of adopting IPSAS in 17 European countries. The findings reveal that the in central and local European Governments, IPSAS are weakly applied. Some jurisdictions use these standards for changing their accounting systems, but many countries still use the local business accounting rules. Plus, some countries that are planning to introduce the accrual accounting will not use IPSAS as the benchmark. Countries such as Sweden, Lithuania or Switzerland are consistently inspired by IPSAS. The experts are convinced that the IPSAS implementation will lead to the increasing of national and international comparability of financial information. Antithetic, some jurisdictions choose to not implement IPSAS. A critical reason

is that the IPSAS are still relatively unknown. The second reason why some jurisdictions choose to not implement IPSAS is the predominance of business accounting rules. In order to encourage the compliance to IPSAS, a significant cultural change is necessary.

This study was extended by Christiaens et al. (2013). The research approaches the same topic and also identifies several significant reasons why some jurisdictions choose to not apply IPSAS when reforming their accounting legal framework:

- The legal framework is based on local business rules;
- The fear of losing the standard setting authority;
- The IPSAS are relatively unknown in the jurisdiction;
- The lack of experience in implementing IPSAS;
- The IPSAS do not take into consideration the budgetary accounting;
- The IPSAS are based on IAS/IFRS and do not take into consideration some significant specific public sector issues.

Spain has adopted IPSAS, and it were used three arguments for the adoption of these standards (Brusca et al., 2014):

- The Spanish business sector has chosen IFRS, and the Spanish government has a custom of basing the public sector standards on business accounting;
- IPSAS have rightfulness because many countries have adopted these standards. For example, the Spanish chart of accounts from 2010 made it precise that IPSAS are well perceived internationally;
- A wish to agree the Spanish public sector with the international accounting novelties.

Although IPSAS are based on accrual accounting, all the cash-based accounting systems from European Union have a compliance rate with IPSAS greater than 0. It indicates that even the standards that are cash-based follow some requirements of an accrual-based accounting model. For example, the Irish central government units report statements of financial position and performance. Otherwise, some accrual accounting standards have a low compliance with IPSAS. Ernst & Young states that, for instance, Czech Republic non-enterprise accounting standard does not provide a statement of financial performance as required by accrual accounting models. Moreover, the recognition and measurement of property, plant, and equipment and provisions differs from the IPSAS principles. On the other hand, the UK accounting standard is closest to the IPSAS. The UK has a compliance rate with IPSAS principles greater than 95%. It is the IFRS adapted to the

public sector specific issues (Ernst & Young, 2012).

The topic of implementation of IPSAS was also analyzed for the case of MERCOSUR countries by Caba Perez et al. (2009). In order to adapt the public accounts models of the MERCOSUR member countries (Argentina, Paraguay, Brazil, Uruguay) to the format suggested by IPSAS, it is necessary to implement some crucial changes that will affect not only the balance sheet that should be published, but also the content. Regarding the balance sheets that should be presented, there is an extraordinary degree of consensus on the need to provide a document that identifies the assets and liabilities, although there are notable differences as to whether the information should be included in the main section of this report or the notes to it. Moreover, none of the reports recommended by IPSAS have been thoroughly incorporated into the annual public financial reports published by the MERCOSUR countries. The quality of the public financial reports of these countries does not reach the standards of disclosure prescribed by IPSAS, and some significant changes need to be implemented.

In the literature, it is stated that reformist developed countries embrace the spirit of IPSAS, but they approach a selective adoption. Also, the conservative developed countries choose to „wait and see” because this involves a little cost to waiting and a little benefit in adopting. Also, the authors conclude that having good international public sector accounting standards is a necessary, but not sufficient condition for improving financial management and governance. Also, there should be allocated more resources to the creating conditions for effective implementation of these standards (Chan, 2010).

We conclude that the IPSAS implementation in the EU is beneficial for improving the comparability and transparency in the public sector financial reporting, but there are still many cultural and legislative boundaries that hinder this process. Although there are many countries with a high rate of compliance with IPSAS such as New Zealand, Australia and United Kingdom, it is worth noting that there are also many countries situated below the average rate of 63% (Ernst & Young, 2012), including Romania. In our opinion, this is due foremost to the fact that IPSAS are still relatively unknown in the EU.

4. FINDINGS

In order to analyze the compliance of Romanian laws with IPSAS 1, we took into consideration a number of 32 items defined by the Standard. These items and the percent calculated are presented in the Table 1.

It is worth marking that there are some elements described into Romanian laws, in the same way as

they are described in IPSAS 1. Thus, the Romanian regulations define the accrual basis in the same manner as IPSAS 1: „Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalents is received or paid). The transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.” Also, the Romanian laws give to the assets a definition similar to the definition given by IPSAS 1: „Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.”

The components of the financial statements disclosed by IPSAS 1 are also found in the Romanian legislation too. Thus, the both sets of rules state that financial statements should comprise a statement of financial position, a statement of financial performance, a statement of changes in net assets/equity, cash flow statement, and notes and accounting policies. IPSAS 1 states that financial statements should comprise additionally „a comparison of budget and actual amounts wither as a separate additional financial statement or as a budget column in the financial statements (when the entity makes publicly available its approved budget).” Also, another issue defined by Romanian regulations in the same manner as IPSAS 1 is the offsetting: „Any offset between assets, and liabilities or income and expenses are prohibited except offsets permitted by the laws, only after recording the revenue and expenses to the full amount.”

It is important to mention that exist many items found in IPSAS 1 and ignored by Romanian laws: Contributions from owners, Distribution to owners, Economic entity, Government Business Enterprise, Materiality, Fair presentation, Consistency of Presentation, Aggregation, Timeliness, Disclosure of Accounting Policies, Key Sources of Estimation Uncertainty and Puttable Instruments Classified as Net Assets/Equity. All these elements are not taken into the Romanian public accounting regulations. Romanian laws state only that net assets are assets minus liabilities. IPSAS 1 states additionally that net assets may be positive or negative.

Related to the identification of financial statements, the Romanian regulations comprise four items that must be explicitly given and repeated as often as necessary for a proper understanding: the name of the reporting entity, the statement that the financial statements are its own, the date referred to financial statements and the currency in which financial statements are prepared. Furthermore, IPSAS 1 states that it should be shown whether the financial statements cover the individual entity or the economic entity and also the level of rounding used

in order to present amounts in the financial statements.

The criterion for classifying an asset like a current asset and presented in the Romanian laws are: “the asset is acquired or produced for own consumption or selling, the asset is expected to be realized within 12 months of the reporting date and the asset is represented by cash or cash equivalents whose use is not restricted.” Additionally, IPSAS 1 states that another criterion for classifying an asset as a current asset is that it should be held primarily for the purpose of being traded.

Regarding the structure of the notes, the Romanian laws mention that they should present additional information that is not disclosed in the financial statements and information on accounting policies, on valuing assets. Additionally, IPSAS 1 states that notes should comprise „additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.” As it can be observed in the Table 1, the total conformity between Romanian public accounting laws and IPSAS 1 is 33.42%. IPSAS 1 presents 125 items, 44 of them being also found in the Romanian laws.

5. CONCLUSIONS

In the first part of the study, we have identified the current state of knowledge, making an analysis content of the key papers published in the field of IPSAS implementation. It is a qualitative research through we have determined the main results of studies realized by now in the field of IPSAS implementation. The research perspective of this first part is theoretical, and the methodology bases on the qualitative analysis.

The Romanian legislation is widespread, unlike IPSAS, which addresses each of them a significant part of the entire process of financial reporting in the public sector. We consider that, for the moment, it is too early to take into consideration the implementation of IPSAS in the near future.

As we can see, the degree of formal harmonization between IPSAS 1 and the Romanian laws is small. The Romanian rules took 33.42% of the main items presented by IPSAS 1 – Presentation of Financial Statements. There are some important issues ignored by the Romanian laws and consistently given by this standard such as the Economic entity, the Government Business Enterprise, the fair presentation and also the key sources of estimation uncertainty. IPSAS 1 is considered an essential point of modern accounting (Bellanca & Vandernoot, 2013), and also we think that it should be a benchmark for making the public accounting laws.

The limits of the research materialize in the fact that the research focuses only the IPSAS 1 –

Presentation of Financial Statements. Also, the research focuses only Romania. As a further research, it would be interesting to make a study that analyzes the similarity level between the Romanian regulations and each of the 32 International Public Accounting Standards. This study would help to determine the stage that Romania crosses regarding the public sector accounting harmonization and the measures that would be necessary for complying with International Public Sector Accounting Standards. There are necessary some reforms that are meant to get the Romanian public accounting legal framework closer to the International Public Sector Accounting Standards.

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Table 1. Conformity between definitions given by IPSAS 1 and the definitions given by Romanian legislation

The element considered	Conformity to definition given by IPSAS 1
Objective	0%
Scope	50%
Accrual basis	100%
Assets	100%
Contributions from owners	0%
Distributions to owners	0%
Economic entity	0%
Government Business Enterprise	0%
Materiality	0%
Net assets/equity	50%
Purpose of Financial Statements	33.33%
Responsibility for Financial Statements	25%
Components of Financial Statements	83.33%
Fair Presentation and Compliance with IPSAS	0%
Going Concern	20%
Consistency of Presentation	0%
Aggregation	0%
Offsetting	100%
Comparative Information	50%
Identification of Financial Statements	66.67%
Reporting Period	66.67%
Timeliness	0%
Current Assets	75%
Current Liabilities	50%
Information to be Presented on the Face of the Statement of Financial Position	53.33%
Information to be Presented on the Face of the Statement of Financial Performance	40%
Statement of Changes in Net Assets/Equity	25%
Structure of Notes	66.67%
Disclosure of Accounting Policies	0%
Key Sources of Estimation Uncertainty	0%
Puttable Instruments Classified as Net Assets/Equity	0%
Other Disclosures	14.29%
TOTAL	33.42%

