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# DIFFICULTIES RELATED TO THE FINANCIAL POSITION REPORTING INTO THE PUBLIC SECTOR IN ROMANIA

Theoretical  
articles

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## Abstract

*Within the context of a turbulent economic environment with impact on the vulnerability of the public sector entities, the stakeholders' needs of information are focussed on the assessment of liquidities and their solvency, on the sustainability of service offering, as well as on the capacity of the entities to answer a dynamic environment in terms of cost, quality and continuity. In this respect, the current study has as objective to identify the difficulties of reporting the financial position into the public sector in Romania. In order to reach the proposed objective, an interpretative research methodology was used. The results of this study has pointed out that the prevalence of divergences between the national view versus IPSAS in terms of reporting the financial position into the public sector limits the informational value and its relevance both for the management of the entities and their stakeholders.*

## 1. Introduction

The premise of research is given by the tradition of the balance sheet as a component of the financial statements into the public sector entities from Romania, as well as its relevance given by several decision makers. The modifications from the international and European area have influenced the accounting system from the national public sector and shaped a new model of financial reporting. Within the current context, dominated by the emphasis of economic turbulence, the vulnerability of the national public sector entities registers an ascending trend. Therefore, the stakeholders of the public sector entities from Romania are interested in financial information that should allow them to evaluate their liquidity and solvability, the sustainability in supplying public services, as well as the capacity of entities to answer a dynamic environment in terms of cost, quality and continuity. From this view, the current research has as objective to identify the extent to which the model reporting the financial position of the national public sector entities answers the needs of information of stakeholders, given that the limits of this model.

The article is structured as it follows: the first section is consacrated to the conceptual assertions and, then, there is described the methodology used for this study. The results of the research are distinctly presented and followed by a section with conclusions.

## 2. Research methodology

This research has as objective to identify the difficulties of the financial position reporting through the agency of financial statements into the public sector in Romania. In order to reach the proposed objective there was used a research methodology of interpretative type. Also, deductive and inductive mechanisms were used to mark and analyse comparatively the concepts and coordinates related to the financial position reporting into the public sector and to identify the difficulties limiting their relevance into the stakeholders' decisional process.

The current research takes into account a synthesis of the ideas published on this topic into the professional literature, as well as the regulations issued by the national and international accounting regulators, respectively by the accounting professional bodies.

## 3. Concept assertions regarding the financial reporting into the public sector

At the level of the public sector the information generated by the financial reports represents the foundation of communication between the entities and their stakeholders. In this respect the financial reports offer to service beneficiaries and resource suppliers information to evaluate certain aspects

on: the extent to which the entity uses the resources in economic, efficient, effective manner and to their assigned purpose, and the extent to which this usage serves their interest; the degree to which the range, volume and costs of supplied services during the reporting period are appropriate and the amount and recovery sources of the costs; and the extent to which the current levels of taxes or other resources collected are adequate for keeping the volume and qualities of services offered at present (The International Public Sector Accounting Standards Board (IPSASB), 2014).

In order to improve the quality and transparency of financial reporting into the public sector, the IPSASB measures are bidirectional: they draw up the International Public Sector Accounting Standards(IPSAS), respectively support the convergence of the international and national standardsfor the public sector, and also the statistics and reporting databases.

In comparison with the European Union level, only 15 of the member states have correlated their public sector accounting with the IPSAS, either by issuing national regulations based on or lined to IPSAS, or by reference to IPSAS and their usage in certain units of the local public administration. Also, none of the member states has not adopted entirely the IPSAS within the public sector accounting. The results of public advising in respect of IPSAS adequacy for the member states, performed by Eurostat (2012) emphasised not only the difficulty in applying the IPSAS in their current form into the member states but also the fact that IPSAS represent a relevant reference for preparing the accounts of the public sector in compliance with the European level (European Commission, 2013). Romania, though starting in 2005 the process of development and improvement of financial reporting into the public sector by internalising certain elements of IPSAS, it has not answered the stakeholders' informational needs yet. The studies performed within the professional literature have shown that, into the Romanian Public sector, the process of supplementing the cash accounting with accrual accounting and the incipient orientation of national regulations towards the International Public Sector Accounting Standards have not brought models of reporting financial performance to answer the real needs of informing the users ( tef nescu et al., 2012). The limits of financial reporting into the national public sector are reflected into the wrong perception of the financial statement components' relevance. In this respect, the analysis of the apprehension manner of the financial performance on the basis of the financial reports' relevance by the managers of public hospitals emphasised the following classification: the balance sheet and the budget execution account (1); patrimony outcome account (2); treasury flow statement (3); statement of modifications within the

structure of assets /capitals (4)( tef nescu et al., 2012).

In terms of financial transparency into the public hospitals subordinated to the Health Ministry from Romania the performed studies pointed out its limitation. Few hospitals have chosen to partly promote the financial transparency by a single financial report, respectively the budget execution account (12%), the balance sheet (8%), the account of patrimony outcome (3%) ( tef nescu and urlea, 2014).

Also, other empirical studies performed at the public sector level in Romania certify that the financial reports do not meet the quality standards recommended by IPSAS, therefore, important modifications should be enforced, both in form and in content (Calu et al.2008). The application of IPSAS in Romania is positively appreciated by the responsible representatives of the local public administration due to the fact that it leads to the increase of trust and transparency of public entities' reportings, the increase of responsibility related to costs and financial performance of those institutions and it shall increase the comparison level of those entities' reportings. Among the challenges of this undertaking there were pointed out: the difficulties in understanding and applying certain concepts within IPSAS, the selection of IPSAS treatments appropriate for emphasising certain transactions and events, the differences between the IPSAS and national regulations and the training costs (N stase et al., 2014).

#### **4. The limits of reporting the financial position into the public sector entities from Romania**

The undertaking to identify the limits of the financial position reporting of the public sector entities from Romania takes into account the two-dimensional analysis – concepts and specific coordinates – of the national accounting regulations (OMFP 1917/2005 with further modifications and completions) with reference to the International Public Sector Accounting Standards (IPSAS).

The comparative analysis of the conceptual potfolio related to the financial position reporting into the national public sector (Table no.1) emphasises the fact that all its components are exhaustively and comprehensively described, and interfere with IPSAS 1 Presentation of Financial Statements. Thus, the accrual basis, assets, debts, own capitals represent the conceptual binding agent between the national view and the international one.

The counter pole consists of the coordinates related to the financial position reporting into the national public sector. The dual examination of the coordinates related to the financial position reporting into the public sector emphasises the fact that (Tabel no.2), by contrast with IPSAS 1 Presentation of Financial Statements which reflect

completely and comprehensively the coordinates of displaying the financial position, the national regulations are limited to the general coordinates.

In this respect 75% of the coordinates of financial position reporting into the national public sector (name, objective, criteria of information presenting, criteria of information ordering, criteria of separately presenting the information, information that should be presented either into the proper statement of the financial position or into notes) are divergent from those presented by IPSAS 1, 13% of them (criteria of information classification) partly interfere and only 12% of the coordinates of financial position reporting into the national public sector (qualitative structures) interfere with those presented by IPSAS 1. We consider that the predominance of discrepancies between the national accounting regulations and IPSAS 1 in respect of the financial position of the public sector entities limits the informational value and relevance of balance sheet in terms of: the degree to which the managing board accomplished their responsibilities of protecting and managing the resources of the entity; the extent to which the entity holds resources to ensure the sustainability of public service supply, the modifications of the value and structure of these resources during the reporting period as well as the debts generated by them; the values and temporary placement of future treasury flows required for the maintenance and reimbursement of debts existing upon the resources of the entity. Also, we consider that the adoption and implicitly keeping by the national accounting regulators the principle of maximizing the information and the display standard framework of presenting the balance sheet regardless of the typology of the public sector entities and their level of subordination, within the context of organisational modifications of the public sector on the whole, generate difficulties to stakeholders into the process of investigating the financial position of the entities belonging to this sector.

The discrepancy between the view of the national and international regulators in respect of the objective of the balance sheet/financial position statement shows the orientation of the financial reporting usefulness into the national public sector towards the intrasector entities but not towards the public, the main supplier of financial resources. Complementarily, the standardization of the information order criterion and the neglect of the particularities of information distinct display within the balance sheet shows the limitation of the professional reasoning folded up upon the typology of the national public sector, the nature of transactions performed by them and the assessment of the significant coordinates of assets (nature, liquidity, due date, etc), fact which give a negative impact on the relevance of information in respect of the financial position of the entity. The difficulty

of comprehensiveness and relevance of reporting the financial position into the public sector from Romania is also the consequence of the absence of the alternative of presenting the information into the balance sheet, respectively into the notes, in accordance with the nature of transactions of the entities.

The terminological incongruency (statement of financial position-balance sheet, circulating assets-current assets, intangible assets-non-current assets-fixed assets) generated by the usage of different translations, magnifies the difficulties concerning the ensurance of information comparison into the international public sector area. Similarly, including the fund of goods building up the public domain, respectively the state/territorial administrative units into the constituent of own capitals, conversely to the international view, proves the diminished degree of convergence of the national accounting regulations with IPSAS and the reduced quality of financial reporting into the public sector from Romania.

### 5. Conclusions

The performed research shows the limitation of financial position reporting of the public sector entities from Romania as compared with the view of the International Public Sector Accounting Standards (IPSAS). The first dimension of this research pointed out that the conceptual portfolio specific for the financial position reporting defined by the the national accounting regulators interferes with IPSAS 1. The second dimension emphasised the difficulties of reporting the financial position into the national public sector and, implicitly, its diminished capacity to answer the stakeholders' needs of information, taking into account the specific coordinates of the financial position reporting (name, objective, criteria of information display, criteria of information ordering, criteria of separate display of information, information to be presented either into the proper statement of the financial position or into the notes). The adoption of the principle of maximizing the information and the balance sheet standard frame of presentation, the standardization of the criterion of information ordering, the existence of terminological incongruences limit the informational value of reporting the financial position and its relevance both for the management of public sector entities and their stakeholders.

Within the current context, when the start of shaping the steps of adopting the IPSAS also at national level, we consider that the national accounting regulators must develop a model of reporting the financial position folded upon the typology and structure of the public sector entities, which should answer stakeholders in terms of comprehensiveness, relevance, comparison, transparency and visibility at international level.

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privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicarea acestuia, publicat în Monitorul Oficial al României nr. 1.18 bis din 29.12.2005, cu competențele ulterioare [Order of the Public Finance Minister no. 1917 for the approval of Methodological regulations regarding the accounting organization and management of public entities, Accounts planning for the public institutions and the instructions to apply it", published into the Official Monitor of Romania no. 1.18 bis dated 29.12.2005, with further modifications and completions]

### Appendices

Table No 1.

*Interferences and limits regarding the concepts related to the financial position reporting into the public sector*

<b>Concepts</b>	<b>IPSAS 1</b>	<b>National accounting regulations</b>	<b>Interferences</b>
<b>Accrual basis</b>	An accounting basis according to which the transactions and other events are recognised when they occur (and not only when receiving or paying cash or cash equivalents). Therefore, the transactions and events are registered into accounting and recognised into the financial statements of the referring periods.	The effects of transactions and other events are recognised when the transactions and events occur and not while the cash or its equivalent is cashed or paid and they are registered into accounting and reported into the financial statements of the reporting periods.	Yes
<b>Assets</b>	Resources controlled by an entity as a result of certain past events generating future economic benefits or potential services for the entity.	Resources controlled by the public entity as a result of certain past events, expecting to generate future economic benefits for the institution and whose cost could be credibly assessed.	Yes
<b>Debts</b>	Current bonds of the entity resulted from past events whose clearing is expected to generate an output of resources incorporating economic benefits or potential services from the entity.	A current bond of the public entity resulted from past events and by its clearing there is expected an output of resources incorporating economic benefits.	Yes
<b>Net assets / own capitals</b>	Remanent interest into the assets of an entity after clearing all its debts.	Remanent interest of the state/administrative-territorial units as owners of assets of a public entity after clearing all debts.	Yes

Note. Source: compilation of the author

Table No. 2.

*Interferences and limits regarding the coordinates related to the financial position reporting into the public sector*

<b>Elements</b>	<b>IPSAS 1</b>	<b>National accounting regulations</b>	<b>Interferences</b>
<b>Name</b>	Situation of the financial position	Balance sheet	No
<b>Objective</b>	They offer information upon the financial position useful for a wide range of users in terms of making and assessing decisions in respect of resource assignment.	They present the elements of assets, debts and own capital of the public institution at the end of the reporting period as well as in other situations stipulated by law.	No
<b>Qualitative structures</b>	Assets, debts, own capitals	Assets, debts, own capitals	Yes
<b>Criteria of information classification</b>	Circulating assets. Permanent assets. Current debts. Long term debts.	Non-current assets. Current assets. Non-current debts. Current debts.	Partly
<b>Criteria of information display</b>	Minimum. They must comprise at least the row-elements: tangible assets; immovable investment; intangible assets; financial assets; investment accounted by the equivalence method; stocks; amounts to be recovered from other transactions than those of exchange (taxes and transfers); amounts to be recovered from exchange transactions; cash and cash equivalents; taxes and transfers to be paid; debts from exchange transactions; provisions; financial debts; minority interest, presented within net assets / own capitals; net assets / own capitals which could be assigned to controlling entity owners.	Maximum.	No
<b>Criteria of information ordering</b>	The order of element display is not provided. Nature of the entity and its transactions such as to offer relevant information upon the financial position of the entity.	The increasing degree of the assets liquidity. The increasing degree of debt payability.	No
<b>Criteria of separate display of information</b>	Assessment of assets nature and liquidity, of assets function within the entity and of assets values, nature and due date.		No
<b>Information to be presented either in the proper statement of the financial position or in the notes</b>	Sub-classification of the row-elements, into an appropriate manner for the entity operations. Clear stipulations for the following types of entities: they have social capital, they do not have social capital respectively, they have reclassified a financial instrument.		No

Note. Source: compilation of the authors