ROMANIA'S EFFORTS TO IMPLEMENT THE DIRECTIVE 2011/85/EU CONCERNING BUDGET IMPLEMENTATION REPORTING AND THE COMPLIANCE WITH IPSAS 24 ON THE PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

Elena HLACIUC, elenah@seap.usv.ro,
Gianina MĂCIUCĂ, geaninasth@yahoo.com,
Rodica AILOAIEI, ailoaiei_rodica@yahoo.com,
Stefan cel Mare University of Suceava, Romania

Abstract. *Most public sector reforms have targeted the management system, the accounting system and, by default, the reporting system. For a long time, the traditional financial reporting of public sector entities was aimed at the budget, the core component of the set of financial statements, but also the main management tool of any public entity, underlying the most important decisions. Romania, as a Member State of the European Union, is subject to rigorous budgetary surveillance, and transparency plays an essential role in this process. Currently, all the efforts in Romania are focused on the presentation of information in accordance with ESA 95 and COFOG 3, observing the provisions of Article 3 of Directive 2011/85/EU. However, given that the European Union supports the development of EPSAS, it follows that Romania will take this particular course of action as well.*

Keywords: *budget, transparency, IPSAS, EPSAS*
JEL: *M41*

Introduction

In the last two decades, in order to be able to cope with the ever-changing economic environment, on the one hand, and with globalisation, on the other, public institutions have been forced to adapt to a new context, namely adopting accrual accounting (Severin A., 2014**).**

Thus, the adoption of accrual accounting by public institutions has, for most countries, been the main concern for almost three decades. In accrual accounting, the main objective of financial reports is *to provide information useful for accountability and decision-making purposes* (Alijarde I.B., Julve V.M., 2004*).*

Reporting and transparency are closely linked. Transparency implies that data reporting, in our case budgeting data, is *accessible, visible, and easy to understand* (Bakkal H., Kasımoğlu A., 2015). The importance of transparency in the reporting process of the data of budgetary institutions is overwhelming, because the lack of transparency, efficiency and accountability of public institutions may pose a significant risk to the economy (Study on reporting transparency of city halls and town halls in Romania, 2013). Transparency in budget reporting also plays an important role in creating trust in public institutions. In this context, budgetary policy ambiguities may be reduced (Bakkal H., Kasımoğlu A., 2015).

At European level, with the onset and manifestation of the financial crisis in the public sector, the European Commission initiated the development of the European Public Sector Accounting Standards (EPSAS), aiming at harmonising accounting policies. Transparency in the area of public finances and the need for comparability of financial data between and within Member States are the main objectives of the EU, and it makes efforts to develop standards which implement uniform and comparable accrual accounting practices for all the public administration sectors in the Member States (Pontoppidan C.A., Brusca I., 2016).

At this time, the development of its own rules, commonly called EPSAS, seems to be the solution adopted by the European Commission.

"EPSAS would give the EU the capacity to develop its own standards to meet its own requirements and with the rapidity required. It would consist of a set of harmonised accruals-based public sector accounting standards adapted to the specific requirements of EU Member States. Standards that could be implemented in practice, and should focus on where they are most needed. The implementation of EU-wide EPSAS would also dramatically reduce the complexity of statistical compilation processes used to transform these data onto a quasi-harmonised basis and minimise risks with regard to the reliability of the data notified by Member States." (Report from the Commission to the Council and the European Parliament Towards implementing harmonised public sector accounting standards in Member States The suitability of IPSAS for the Member States).

EPSAS focuses exclusively on accounting reporting, not on budget reporting, and as a result, at first glance, the budgetary reform is not affected by the EPSAS reform. However, the actual implementation of EPSAS implies a step-by-step process, which could begin in 2020. Given the role that IPSAS will play in the development and implementation of EPSAS, Eurostat recommends the voluntary implementation of accrual IPSAS pending the development of the EPSAS standards (Thomas Müller-Marqués Berger, 2016).

Thus, given that budget presentation is a characteristic of public institutions (Shaik F., Sanderson I., 2009), *IPSAS 24-Presentation of Budget Information in Financial Statements* was developed and included in IPSAS, and this standard is applied by public sector institutions and provides that "a comparison of budget value and actual value, arising from budget implementation, should be included in the financial statements of entities" (IPSAS 24, 2013).

The budget process is linked to the accounting process, so accounting and budgeting must be integrated into a coherent information management framework, and conceptual links must be created between different accounting and budgeting elements (Meszarits V., Seiwald J., 2008).

As for the importance of this standard, there are positive opinions in the international accounting literature, according to which IPSAS 24 aims to ensure that public sector entities are responsible for increasing the transparency of their financial statements by demonstrating how they have observed their approved budget (Aggestam-Pontoppidan C., Andernack I., 2016), but there are also views according to which this standard has some deficiencies, in that, according to IPSAS 24, the budget is considered to be a simple tool for comparing estimated data with accounting data (Fabio Giulio Grandis, 2013).

The first rule of IPSAS 24 stipulates that financial statements should include a comparison of the actual figures with the original budget and the revised budget, a comparison that should be made on the same basis, even if the financial statements were prepared on a different basis.

The second rule requires the entity to present the differences between the actual figures and the budget, unless such disclosure is included in another document (Shaik F., Sanderson I., 2009).

1. The budget of public institution in romania-between reporting and trnsparency

The rigorous and transparent reporting of the financial statements of all EU countries is a necessity. In this respect, Directive 2011/85/EU recognises the important role of financial statements and the need to build them on a comparable basis, so that Member States

> *"have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard."*

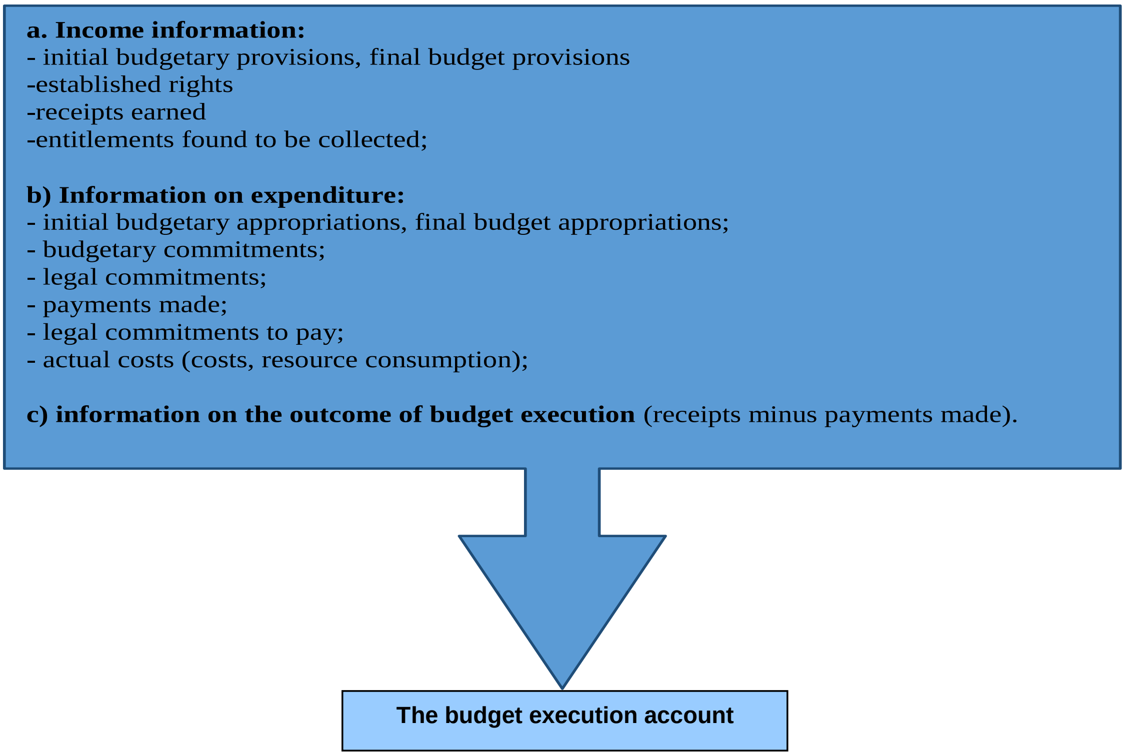
To this end, Directive 2011/85/EU provides for an assessment of the adoption of IPSAS by EU Member States.

In Romania, the idea of implementing IPSAS in the public sector appeared in 2005, following the recommendations of the European Commission, of the International Monetary Fund and of the World Bank. The Order of the Minister of Public Finance no. 1917/2005, as subsequently amended and supplemented, even if it does not make an explicitly reference to IPSAS, incorporates specific elements of the following IPSAS:

- IPSAS 1 Presentation of Financial Statements;
- IPSAS 2 Cash Flow Statements;
- IPSAS 4 Effect of Changes in Foreign Exchange Rates;
- IPSAS 5 Borrowing Costs;
- IPSAS 9 Revenue from Exchange Transactions;
- IPSAS 12 Inventories;
- IPSAS 17 Property, Plant and Equipment;
- IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets;

- IPSAS 23 Income from Non-exchange Transactions (Taxes and Transfers);
- IPSAS 24 Presentation of Budget Information in Financial Statements.

The use of different accounting and budgetary reporting bases creates complexity and requires reconciliation between the two systems (IFAC, 2000). This is also the case for Romania - in order to reconciliate accrual accounting with the cash budget, the implementation account contains accrual information as well as cash information (Alecu G, 2010). The budget implementation account comprises all financial operations during the financial year with respect to revenue received and payments made, in the structure in which the budget was approved, and shall include:



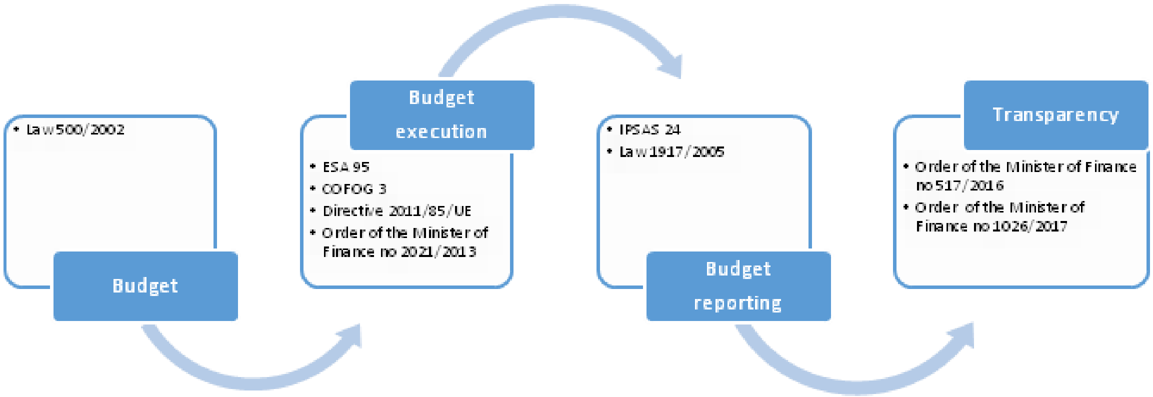
Source: Own interpretation

The budget implementation account is drawn up on the basis of the data taken from the accounts payable/accounts receivable rollover of the cash accounts, which must be reconciliated with those of the accounts opened with the Treasury or the banks, as the case may be. It should be noted that at the time of drafting of the latest implementation account for public institutions in Romania, namely December 2005, given that the IPSAS Board had not yet published IPSAS 24, the requirements of the Financial Regulations applicable to the general budget of the European Community no. 1605/2002 were observed (Ilie D., Alecu G.,2011).

In Romania, the transposition of the European Directive 2011/85/EU implies the adoption of rules applicable to budget accounting and statistical reporting systems. Thus, the attention of the national regulatory bodies is focused on the technical issues related to public sector accounting and is mainly aimed at *compiling and reporting the trial balances of all entities in this sector to the Ministry of Public Finance in a consistent way* (Study on reporting transparency of city halls and town halls in Romania, 2013). In this respect, the Order of the Minister of Public Finances no. 2021/2013 develops analytical accounting by adding the following elements to the synthetic accounts: sector code, source of financing and income classification, functional classification of the expenditure and economic classification of the expenditure). The budget accounting reporting module (budget implementation) operates on the ALOP principle (commitment, liquidation, authorisation, payment) and was achieved through:

- the transition to the COFOG 3 system of accounts;
- the transition of the revenue and expenditure budget implementation to the COFOG 3 system;

- the issuance of a certificate attesting the knowledge regarding the European System of Accounts to the heads of the financial and accounting departments;
- the creation of a computerised reporting system for budget implementation and financial statements.



Source: Own interpretation

Starting with 2017, all public institutions will apply a new model for patrimonial accounting reporting, by submitting the trial balance and the other statutory documents stipulated in the law to a computerised system and by generating, with the help of the system, the quarterly and annual financial statements (OMPF no. 1026/2017 amending and supplementing OMPF OMFP no. 517/2016 for the approval of modules included in the operating procedure of the national reporting system-Forexebug).

Conclusions

The transparent, comparable, and unitary reporting of budget implementation and financial statements is a prerequisite for formulating macro-economic and budgetary forecasts that are comprehensive, impartial, and based on objective criteria, as required by the Directive 2011/85/EU. Romania, as a Member State, is currently taking the necessary steps to meet these conditions. Budgetary accountability has increased with the increase in budgetary transparency. Considering all the steps that Romania has taken since the adoption of accrual accounting, we believe that Romania is ready to apply EPSAS in the medium term, after their development.

References

1. Alijarde I.B., Julve V.M., 2014, Accrual Financial Reporting in the Public Sector: Is it a Reality?, Revista Innovar Journal Revista de Ciencias Administrativas y Sociales, vol.24, no.54, pp. 107-120, http://dx.doi.org/10.15446/innovar.v24n54.46458;
2. Meszarits V., Seiwald J., 2008, Budgetary Reform in Austria: Towards tighter coupling within the financial and management system, Working Paper 3/2008, available at https://www.bmf.gv.at/services/publikationen/BMF-WP_3_2008_Budgetary_Reform_in_Austria-Towards_tighter_co.pdf?5s3qe0;
3. Grandis F.G., 2013, IPSAS 24 and the Authorising Function of Budgets. Critical Analysis and Applicability in Italy, International Journal of Economics, Business and Finance, Vol. 1, No. 7, pp. 174 -188;
4. Schaik F., Sanderson I., 2009, Presentation of Budget Information in Financial Statements IPSAS 24, available at http://iframe.treuhaender.ch/GetAttachment.axd?attaName=c2855fc6-3b01-4551-87db-383c23f6e068;
5. Aggestam-Pontoppidan C., Andernack I., 2016, Interpretation and Application of IPSAS, John Wiley & Sons Inc;
6. Severin A., 2014, Dezvoltări şi aprofundări privind situaţiile financiare ale grupurilor din sectorul public- doctoral thesis abstract;
7. KPMG, The Academy of Economic Studies, 2013, Studiu privind transparența raportărilor primăriilor de municipiu şi oraş din România;

8. Ilie D., Alecu G., 2011, Convergența contabilității instituțiilor publice cu Standardele Internaționale de Contabilitate pentru Sectorul Public (IPSAS), published in the "Audit Financiar" magazine No.10/2011, pp.36-41;
9. Bakkal H., Kasımoğlu A.,2015, Importance Of Financial Transparency And Accountability In Budget Process, Finans Politik & Ekonomik, pp.37-52, available at http://www.academia.edu/11479998/B%C3%BCt%C3%A7e_S%C3%BCrecinde_Mali_Saydaml%C4%B1k_Ve_Hesap_Verebilirli%C4%9Fin_%C3%96nemi;
10. Aggestam Pontoppidan C., Brusca I., 2016, The first steps towards Harmonizing of Public Sector Accounting for European Union Member States: Strategies and Perspectives, Public Money and Management, vol 36, no. 3, pp. 181-188. DOI: 10.1080/09540962.2016.1133970;
11. Müller-Marqués Berger T., 2016, An update on the EPSAS project, available at http://www.publicfinanceinternational.org/opinion/2016/11/update-epsas-project;
12. EPSAS: a standards odyssey, available at http://www.publicfinanceinternational.org/opinion/2015/04/epsas-standards-odyssey;
13. Commission Staff Working Document, 2013, Report from the Commission to the Council and the European Parliament Towards implementing harmonised public sector accounting standards in Member States The suitability of IPSAS for the Member States;
14. Directive 2011/85/EU;
15. Order no. 2021/2013 amending and supplementing the Methodological Standards regarding the organisation and management of the accounting of public institutions, the Charter of Accounts for Public Institutions and its implementation instructions, approved by the Order of the Minister of Public Finance no.1917/2005;
16. Order of the Minister of Public Finance no.1917/2005 for the approval of the Methodological Standards regarding the organisation and management of the accounting of public institutions, the Charter of Accounts for Public Institutions and its implementation instructions, as amended and supplemented, published in the Official Journal of Romania, no. 1186 bis, on 29 December 2005;
17. IPSAS 2013, CECCAR Publishing House, Bucharest;
18. Government Emergency Ordinance no. 88 of 18 September 2013 on the adoption of taxation and budgetary measures for the fulfilment of commitments agreed upon with international bodies, as well as amending and supplementing several legal instruments, published in the Official Journal of Romania no. 593 of 20 September 2013;
19. Alecu G., Contabilitatea instituţiilor publice. Convergenţe cu IPSAS, Tribuna Economică Publishing House, 2010;
20. Order of the Minister of Public finances no. 1026/2017 amending and supplementing Order of the Minister of Public finances no. 517/2016 for the approval of procedures related to modules included in the functioning procedure of the national reporting system - Forexebug, published in the Official Journal of Romania no. 603 of 26 July 2017.