

## **ACCOUNTING PUBLIC INSTITUTIONS FROM CLASSIC TO MODERN**

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**ABSTRACT:** *Local communities in Romania and around the world, faced with extensive decentralization of public services have turned into real management units which must meet the needs of increasingly diverse individuals, the insurance fund with limited resources . This has led to the identification of resource management budget and transparency in their use, on one hand, and secondly the criteria of efficiency, effectiveness and economy.*

**KEY WORDS:** *Budget classification; public accounting; public expenditure; performance; budget process*

**JEL CLASSIFICATION:** *M41, M42*

### **1. ASPECTS OF THE BUDGETARY ACCOUNTS: CONCEPTS AND THEORY**

Public accounting is accounting that provides operations evidence all receipts and payments on public funds. It evaluates the obligations of taxpayers, they show the revenue from these obligations and determine the differences in outstanding obligations and officers liability for payment of public funds. Organization is mandatory for all public authorities, territorial communities, national and local institutions.

In the paper "Cours sur les règles de la comptabilité publique, École nationale des services du Trésor", the authors Vincent and Jean Claude Pagat Rauda retain for more public accounting definitions, a common, other technical and other administrative. Thus, one makes the usual definition as "the set of rules for management of state revenues," the technical "rules of presenting government accounts, and the management is considering public and tasks defined as" public

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accounting rules are while presenting the accounts rules and regulations organizing public accounting services.

Public Accounting in Romania remained a "Cinderella" of science books, both at central and local pressure to both taxpayers and financial creditors who became interested in the financial condition and performance of local communities when they turned to capital markets to finance public investment currently goes through a double process of reform, a transfer from cash accounting to accrual accounting treatment and the information unit by the International Accounting Standards Public using (IPSAS ).

After 1990, accounting in our country was seized by a wave of reforms in this sphere and are registering public accounting. Local communities in Romania and around the world, faced with extensive decentralization of public services have turned into real management units which must meet the needs of increasingly diverse individuals, the insurance fund to limited resources. This has led to solutions to the funding for public services to be provided under quality and affordability for beneficiaries.

Internationally, the gap between public services and decentralization of financial resources was manifested differently. While in Western Europe were first transferred responsibilities and resources then, due to pressures on maintaining budget balance, and in Latin America was first decentralized management of financial resources and then the public services. Due to the multitude of responsibilities, often beyond the bearable, local communities have resorted to various financial management tools to ensure, first of transparency in resource use, and secondly the criteria of *efficiency, effectiveness and economy*.

Accounts of public institutions providing information to officers on implementation of the budget revenue and expenditure, budget outturn, assets under management, the result patrimonial (economic) cost of the programs approved in the budget, but also information needed to prepare the annual general account executive state budget and special funds.

According to regulations in force in public finance and accounting, public accounting includes: income and expenditure accounts, which reflect the collection of revenue and expenditure budget; cost the state treasury; general accounts based on the principle of finding of rights and obligations, which reflect the financial and economic developments, and surplus or deficit of the patrimony; accounting for cost analysis of approved programs.

Liability for organization and management of public institutions is accounting officer or other persons required management unit. Those responsible for organizing and keeping the accounts should provide, by law, necessary conditions for organizing and conducting accurate and updated accounting, organization and inventory of assets and liabilities, and recovery results, the rules for making financial statements, timely submission of their bodies in law justificatory retain documents, records and financial statements, management accounting organization adapted to public institutions.

Although many years upgrading public institutions' accounting has been postponed, the need of compliance with European directives, imposed a substantial transformation of its organization to meet the old goals - business specializes in measurement, evaluation, knowledge management and control of assets, liabilities and

equity and the results obtained from public institutions, but also new requirements of the publication and preservation of information concerning the financial position, financial performance and cash flows. Underlying these changes lies nr.1917 Order of December 12, 2005 approving the Methodological Norms on the organization and management of public institutions' accounting. Chart of accounts for public institutions and its implementing instructions - published in the Official Gazette. 1186 bis of December 29, 2005.

Development of accounting system in Romania, was to base harmonization of legislation with EU Directives in the area to meet EU accession requirements and alignment with International Accounting Standards, a situation imposed by economic globalization and development capital market. Romania currently faces irreversible processes and high interest accounts: increase the number and power of transnational companies, the globalization of economies, mainly the financial markets, increasing market capitalization and development and the emergence of new financial products. Under these conditions, production and communication of financial information relevant, reliable, comparable to using a common accounting language sufficient to ensure communication between all users of information are vital business. Single solution to achieve these requirements is to harmonize / convergence / Romanian accounting conformity with the provisions of the *acquis communautaire*, and thus the effective implementation of International Public Sector Accounting Standards (IPSAS).

## **2. PROCESUL LOCAL BUDGET - THE BASIS FOR A MODERN FINANCIAL MANAGEMENT**

Starting from the premises the principles, framework and procedures for training, administration, recruitment and use of public funds and the liability of public institutions involved in the budget process we launch a series of objectives designed to ensure better management of public expenditure on one hand, and a program more efficient revenue collection, on the other. These objectives are key compliance starting point coordinates fiscal and budgetary policy are: maintain an efficient and focused on priority sector policies; ensuring and strengthening the necessary finances to support the commitments deriving from integration in the great European family; formulate a development budget to encourage investment and absorption of EU funds.

One of the priorities that should underpin fiscal construction budget, which would lead to sustainable development of the national economy is to strengthen the conditions for absorption of structural instruments as a resource that Romania will benefit from the European Union. In this respect, that is approved by the National Strategic Reference Framework which facilitates the design of budgetary policies on multi bases, consisting of seven operational programs, funded by the European and national funding instruments.

An important role is created and the introduction from 2009 of a series of indicators relating to Budget classification: Projects funded by external grants (NEF) post-accession, amounts received from the EU account payments and grants from other levels of government. The strategic objectives of budgetary policy are: improving the

budget formulation, by shifting its focus on costs budget to implement the budget based on objectives, results and performance; reforming budgetary philosophy meaning supporting economic sectors with high added value and those based on knowledge; financing of priority public policies as a correct approach to the challenges Romania's European integration and globalization. These are: education, health, insurance, transport, environment, regional development, research, innovation, agriculture and defense.

### **3. CLASIFICATIA BUDGET - ESSENTIAL FOR BUDGETARY RESOURCES**

An essential element in formulating the budget and policy issues of allocation of budgetary resources is the classification and presentation of budget expenditure, the more so as compared to the conventional public finance, while public expenditure strictly ensured the operation of the state bodies in scope neutral economic and social, in modern times the scope has expanded in parallel with the diversification of the powers conferred on the state and public spending have also become important lever to influence economic and social life. Classification is important for measuring expenditure allocation in publicly funded sectors, to ensure the possibility to check the agreement with legal permits, to review the policy and performance analysis and daily budget. An expenditure classification system provides a framework both for policy decisions as well as for accountability.

Budgeting steps in organizing a system often determines the classification of expenditure. In this regard, it should be noted that some budget authorization focuses on resource use and, consequently, the Classification inputs and administrative unit, policy formulation and the need for efficient allocation of resources behind a classification of expenditure by function and by program while focusing attention on operational performance is the basis for a tiberius programs or activities expenditure on output and aggregate fiscal control requires an appropriate economic classification.

The classification of expenditures can take different forms, based on different goals pursued: reports, budget management, budget presentation in parliament. Budget expenditures are generally classified according to different needs, the following categories: the function (Functional) - for historical analysis and policy analysis; the organization (administrative) - the responsibility and budget management; the resources (financial) - Budget management; economic categories - for statistical reporting and financial control of aggregates; the articles - for management agreements and domestic; on schedule - for policy formulation and performance accountability.

### **4. THE SOFTWARE CLASSIFICATION - THE FOUNDATION OF THE MODERN INSTRUMENT OF BUDGETARY POLICY**

This form of classification has emerged as a necessity in terms of identifying a tool of modern financial management by which to manage budgetary resources, in terms of economic efficiency. This classification takes into account government policy objectives and the implementation of these policies, with reliance on a program that provides a set of activities to the same set of specific objectives.

A program has a clearly defined budget and can be distinguished from a policy, which is a set of activities that may vary over time and may have different direct beneficiaries. Policies are directed towards common general objectives and goals. A policy is generally not restricted in terms of budget and time schedule. This is often a mix of current or intended expenditure programs, tax incentives and regulations. In terms of expenditure classification, activity is a subdivision of a program in homogeneous categories. In fact, the hierarchy of "primary function" ("strategic area"), "program" and "activity" is comparable to that of the government structure (ministry, directions, divisions). In theory there is no systematic relationship between functional structure and program and organizational structure of government, but is important for liability reasons and for reasons of management to establish organizational structure of the program according to their responsibilities.

Classification of expenditure on software can be used to fulfill two purposes: identifying and clarifying the goals and policies; monitoring operational performance through performance indicators. A differentiation can contribute to increased transparency and greater accountability, it also is not an end in itself but a means to achieve government goals.

## **5. IMPACT ON ROMANIA OF THE INTRODUCTION OF ACCRUAL ACCOUNTING FOR PUBLIC INSTITUTIONS**

Accrual (accrual Accounting) has become a standard in most public administrations in Europe, the European Commission as promoter of this method with the International Federation of Accountants (IFAC). The European Commission has undertaken to modernize and improve the EU accounting system in accordance with recent developments, focusing on transparency and accuracy. Thus, on December 17, 2002, the European Commission adopted a decision on upgrading its accounting system. Reform was the shift from cash accounting (cash) to Accrual (accrual) from January 1, 2005, that provides a clearer picture of assets and liabilities at any point in time.

Ministry of Finance of Romania has initiated action to introduce a system based on accrual accounting for public institutions since 2003. Accounting rules to be adopted will be based on European Directives no. 4 and no. 7 and the European System of Accounts (ESA 95). Adoption of accrual based on a set of policies and Generally Accepted Accounting Principles (GAAP) is a benefit. Thus, accounting rules were implemented in legislation in force and the steps needed to decide and implement a set of rules based on GAAP for public sector use. These rules reflect the requirements of accounting and disclosure in the European Union and the International Public Sector Accounting Standards (IPSAS), accumulated professional requirements of the law and reasoning of the Court of Auditors and of professional accountants in Romania.

Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Accrual-based system improves GAAP financial management reporting entities in the following aspects: phasing resources effectively controlled by the entity; performance assessment in particular for entities competing in similar markets; statement of financial position of government assets and

obligations (assets); ensure financial control by measuring past performance to provide a basis for future decisions.

One of the benefits of accrual accounting is to improve statistical information for internal decision makers and international bodies such as IMF and OECD. Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Accrual-based system improves GAAP financial management reporting entities in the following aspects:

Another benefit is to provide a system of accountability, which can be used ultimately for Parliament to assess performance under the responsibility of government. Establish accounting procedures and relevant results for EU funding domestic investment improves efficiency and speed. The new accounting system and other potential users enjoy. Government has a significant share of all enterprises and adopt policies based on GAAP will improve the ability of these entities to seek private financing.

## **6. ACCOUNTING AND FINANCIAL PERFORMANCE IN THE LOCAL PUBLIC INSTITUTIONS**

As "institutional" look different links of local government decisions to ensure their achievement incorporates some economic load, directly or collaterally, but indispensable. Economic decisions, even social, so requires, always assess the ability of firms, companies, corporations, individual institutions to generate cash (income, fundraising, financing, etc.). Or cash equivalent, including safety and generation period them. Ultimately it depends, for example, its ability to engage and work to pay suppliers, to pay employees to repay loans and to pay appropriate interest, to meet various other obligations. Users are able to assess this ability to generate cash or cash equivalent if they are given full information and focus on financial performance and position changes for each entity to which the person is receiving income, commits expenditure or generate requires resources.

One may say that these statements taken from the "framework of IAS" refers only to businesses, since they are meant to generate revenue fundamental and hence, economic benefits, but not so. A public institution, and in this case a local public institution, is more interesting and more attractive if he can base its budget, to argue the application for funds if ventured to seek and obtain funding on programs that give support scientific and legal sizing and own revenue collection of taxes, related activities, collateral resources, then, if he can properly manage costs between needs and resources - and all in a context which is not omitted efficiency and perspective.

This is not only dealing with "financial performance" the most dynamic sectors of accounting. So it was concluded that the ESA-95 "Accounting is a specialized activity in measuring and tracking (we say and" calculation ") information on financial position and cash flows" and in consensus, Accounting Law no. 82/1991 amended 2004-OG70/13.08.2004) has expressly provided for public institutions (the presidency of the country's "presidency" of the village).

Information about the performance of local public institutions are needed to assess potential changes in economic resources that the entity can control the future, to anticipate the ability to generate cash flows to existing resources, to formulate judgments about how effectively it can engage and use new resources. In practice financial performance information are provided primarily for "profit and loss", where traders and "budget execution account" for local public institutions, but things are not so simple way to reduce the aggregate data from some form of regular reporting on that would be a shame to ignore the information in real time providing the accounting account. Accounting information has advantages over other sources because they have high credibility in relation to other sources of information. Public accounting purpose is to secure the faithful picture of the situation of financial position, financial performance, but also on cash flow and income and expense budget execution. To achieve this goal it is necessary to continue improving the content and quality of information presented in the financial statements of public institutions, which largely took place in Romania in recent years, but the process is concluded.

## **7. CONCLUSION**

Changes that have occurred in recent years in the public system have led to remarkable changes in public accounting. Thus, in its present form, public accounting is more able to provide clear information about the proper management of public funds, thus ensuring a more effective tool in making decisions regarding the most effective management of public funds. Reform measures that took place in public accounting in Romania within the context of international public accounting regulation. Ministry of Finance has set the 2003 deadline for harmonization with EU standards in the public sector (IPSAS). This should be treated as a first stage of implementing a comprehensive commitment accounting system based on Romanian GAAP.

The main objectives of public administration reform, which must be fulfilled in the coming period are: profound restructuring of central government and local change of the relations between administration and citizens, decentralization of public services and strengthening local administrative and financial autonomy, coherence of the administrative and improving management in government, the application of rational policy development and upgrading of urban and rural areas, strengthening of State authority and its responsibilities, harmonization of legislation with EU regulations.

We believe that great importance is the image of heritage that can provide stable local public institution and its ability to raise in order to achieve public interest objectives in the same way that a true heritage of accounts offered by a company managers can provide the information necessary for the proper management. Changes in public management in recent years have led to remarkable growth in public accounting. Public accounting is likely to provide better information on budget management, as well as correct and appropriate use of public funds, ensuring users can take the best economic decisions. In achieving this requirement is necessary to move from cash accounting, resource-oriented entry in a results-oriented approach and performance – accrual. Public sector reform objectives are: profound restructuring of

central government and local authorities, changing relationship between citizen and administration, decentralization of public services and strengthen local autonomy, administrative and financial, community services demilitarization, depoliticization of public administration structures, stopping the bureaucracy, improving management administration, application of rational policy development and upgrading of rural and urban localities, strengthen state authority and accountability, the harmonization of legislation with EU regulations.

The growing role of international public sector, public accounting and budget issues became increasingly important. In this context public accounting reform in Romania is an important step in European integration. We believe that performance is more important than money. Possession of money gives a performance expressed ability to capitalize on the possession, which is possible only through accounting steps to modernize local public institutions, through a double process of reform, a transfer from cash accounting to accrual accounting and uniform accounting treatment of information by the International Accounting Standards Public using (IPSAS).

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