PUBLIC ACCOUNTING REFORM IN ROMANIA

Doina Ilie – General director
General directorate of accounting methodology for public institutions
MINISTRY OF PUBLIC FINANCE
ROMANIA
The reform of public accounting in Romania started in 2002;

- It was a Government Decision that established: “cash accounting will be supplemented by accrual accounting”

- The reform has been implemented step by step.
Before 2006, the public accounting system was a mixture between cash and accrual (modified accrual).

It had the following characteristics:
- the recognition of most assets and liabilities in accordance with the accrual principle but the recognition of revenues was performed on cash basis;
- most of the fixed assets were recorded at historical cost and others in a technical-operative evidence, in natural units, without value;
- the cost of all fixed assets was recognized at the time of acquisition or construction.
ACHIEVEMENTS DURING THE PERIOD 2003-2011

Ministry of Public Finance was the beneficiary of the technical assistance twinning projects:

1. “Improving the organization and performance of the public accounting system” in partnership with Glasgow Caledonian University from Great Britain;
2. “Improving the organization and performance of the public accounting system” together with Ministry of Economy and Finance from Italy and with Ministry of Economy, Finance and Industry from France;
3. “Strengthening capacity building for the presentation of the Financial Consolidated Statements” in partnership with Ministry of Finance and Economy from Italy.
ACHIEVEMENTS DURING THE PERIOD 2003-2011

- Approval of the first version of a new Chart of Accounts based on accrual principles. It was applied on experimental basis in parallel with existing regulations by the some line ministries and local authorities;
- Introduction of the four stages of expenditures: commitment, validation, authorization and payment;
- Accounting record of general consolidated budget claims (entitlements).
- Reevaluation of tangible fixed assets and assets in progress, has been applied for the first time, at the end of 2003;
- Introduction of depreciation (amortization) for tangible and intangible fixed assets in 2004;
ACHIEVEMENTS DURING THE PERIOD 2003-2011

- A new Budgetary Classification in accordance with COFOG and ESA’95 rules;
- A new Chart of Accounts was officially approved at the end of 2005 and was applied starting with 2006, improved with new elements of accrual accounting, like:
  - recognition of revenues when they occur based on tax statement (declaration form of return);
  - impairment of assets (OPTIONAL);
  - provisions (OPTIONAL).
ACHIEVEMENTS DURING THE PERIOD 2003-2011

The main changes were based on **transposing of some provisions** of the International Accounting Standards for Public Sector, as:

- IPSAS No.1: “Presentation of financial statements”;  
- IPSAS No.2: “Cash flow statements”;  
- IPSAS No.17: “Property, plant and equipment”;  
- IPSAS No.12: “Inventories”;  
- IPSAS No.19: “Provisions, contingent liabilities and contingent assets”.

ACHIEVEMENTS DURING THE PERIOD 2003-2011

• IPSAS 4 “The effects of changes in foreign exchange rates”;
• IPSAS 5 “Borrowing costs”;
• IPSAS 9 “Revenue from exchange transactions”;
• IPSAS 23 “Revenue from non-exchange transactions”; 
• IPSAS 24 “Presentation of budget information in the financial statements”;
Convergence with IPSAS 1 “Presentation of financial statements”
IPSAS 2 “Cash flow statement”

- Components of financial statements;
- Accrual accounting principles;
- Classification of the assets and liabilities (current and non-current);
- Presentation of the revenues and expenses according to the nature;
- Presentation of the budget information;
- Presentation of the supplementary information in explanatory notes.
Convergence with IPSAS 1 “Presentation of financial statements”
IPSAS 2 “Cash flow statement”

Components of the financial statements are:
- the balance sheet;
- the profit and loss account (economic result account);
- the cash flow statement;
- the statement of changes in the structure of the net assets/equity;
- annexes to the financial statements, which include:
  accounting policies, explanatory notes;
- the budgetary execution account.
THE ROLE OF MINISTRY OF ECONOMY AND FINANCE

• Based on financial statements presented by the mainly credit holders (line ministries and other central authorities, local municipalities), after their verification and examination, the Ministry of Public Finance shall prepare:
  - the annual general execution account of the state budget;
  - the annual execution account of the state social security budget;
  - the annual execution accounts of the budgets of special funds;
  - the balance sheet of public institutions.

* All of them are submitted to the Government.
THE ROLE OF MINISTRY OF ECONOMY AND FINANCE

• The Government shall examine all these reports and shall present annually execution accounts of the budgets to the Parliament for approval, by July 1st of the year following the execution year;

• The annual general execution account of the state budget, state social security budget and the other annual execution accounts shall be approved by law after their verification by the Court of Accounts (Supreme Audit Institution).

Government financial statements represent sources of data for the following **users:**

- statistic office of Ministry of Finance;
- National Bank of Romania;
- National Institut of Statistics;
- European Commission – EUROSTAT;
- International Monetary Fund;
- World Bank.
OMISSIONS FROM IPSAS

Although financial statements of Government meet some of the requirements of the IPSAS, there are some major omissions:
- In the Cash flow statement elaborated using direct method, are not eliminated transfer between cash accounts;
- Is missing a reconciliation between budget deficit and accrual deficit.
OMISSIONS FROM IPSAS

- transfers between government entities are not eliminated;
- state-owned enterprises are not included;
- pension liabilities are not shown;
- some fixed assets are not depreciated (public property of state, heritage assets, military equipment);
- impairment of fixed assets is optional;
- net realizable value for inventories is optional;
- recognition of provisions is optional.
In Romania there are almost 13,000 public institutions

- All of them have an own accounting office;
- All of them use double-entry method;
- All of them apply accrual accounting rules;
- The Chart of Accounts, the budgetary classification and the model of financial statements are unique.
Difficulties encountered during the implementation of accrual accounting

- Delay in drawing up the financial statements by the public institutions and correspondingly delay in submitting them to the Ministry of Finance;
- Accrual data are not entirely reliable;
- For the purpose of reporting to the European Union cash data are used and are adjusted with debts and liabilities.
- Transmission of data to the European Union with delay.
THE REASONS OF DIFFICULTIES

- Inadequate allocation of human resources in financial-accounting offices (in many institutions there is only one accountant);
- Inadequate allocation of IT resources – each institution has an IT accounting soft acquired from the market; there is no an unique accounting soft for all institutions;
- Insufficient time for analysis of data provided by the subordinated institutions;
- Insufficient training of staff.
MEASURES TAKEN TO ELIMINATE DIFFICULTIES

For implementing the new accounting system training programs have been carried out by:
- the *Ministry of Economy and Finance* – seminars and workshops;
- *Public Finance School of the Ministry of Economy and Finance* - courses;
- *National Institute of Administration* with 8 regional centers -courses;
- *Private training companies* - courses.

* The training realized until now is not enough, it must be expanded.
MEASURES TAKEN TO ELIMINATE DIFFICULTIES

- The Accounting Law was amended, to eliminate the difficulties.
- The measures adopted:
  - firm deadlines were stipulated for drawing up of the financial statements and providing them to the Ministry of Public Finance;
  - fines, penalties for delays in providing of the financial statements;
  - blocking of financing from the budget for institutions financed from the budget;
  - blocking of bank accounts and treasury accounts for institutions financed from own revenues.
PLANS FOR FUTURE

- Improvement of accrual accounting and convergence with other IPSAS;
- Analysis and improvement of financial statements of the public institutions;
- Developing and improvement of Governmental reports;
- Developing an IT system, to have on-line access at the information at lowest level.
THANK YOU!

doina.ilie@mfinante.ro