# *Empirical Survey Regarding the Presentation of General Purpose Financial Statements of the Public Sector Entities*[i]

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***Abstract****: Within this article we tried to present the difference between the accounting of the public entities from Romania and the international public sector accounting standards (IPSAS), from two points of view:*

- *the differences between the national regulations and IPSAS;*
- *the disagreement between the regulations issued by the Romanian authorities and the accounting practices inside public sector entities.*

*For this we achieved a review of the literature in this area doubled by an empirical research. The literature review considered the public sector accounting history in Romania, the International Public Sector Accounting Standards Pronouncements in force and similar studies conducted by researchers in public sector field. The empirical survey was based on a questionnaire to which we received answers from sixty-three entities.*

*All respondents to the study realized the increased complexity of the financial statements implemented by the new accounting system. They understood the role of developing accounting policies and the connections between the components of financial statements and incomes and budget execution account. However, from the results obtained, we consider that the quality of the annual public financial reports does not reach the standards of information disclosure recommended by the IPSAS and that important changes need to be implemented, affecting not only the statements provided but also their content.*

***Keywords:*** *accrual accounting, financial statements, Romanian accounting standards, IPSASs, empirical survey, public entities*

## 1. Introduction

The premise for conducting this empirical survey was to establish the degree in which the general purpose financial statements prepared under the accrual accounting by public sector institutions of Romania disclose sufficient information to the interested users for decision-making process and for analyzing the management of the entrusted public resources.

In the spirit of NPM philosophy (New Public Management[ii]), beginning with January 1st 2006, public sector institutions of Romania have realized the transition from cash accounting regulated since 1970 by Order of Public Finance Ministry no. 596 to accrual accounting regulated by the Order of Public Finance Ministry no.1917/2005 (referred to as OMFP 1917/2005) for approving *the Methodological Norms concerning the organization and conducting of public sector accounting, the Chart of accounts and the Instructions for applying it.*

We consider that the scientific importance of this study and the contribution to the literature in the area of the public accounting are given by the fact that, for Romania, there isn't any similar empirical survey to evaluate the level of information that the users of the public sector financial statements receive. The transition to the new accounting system has been analyzed in a 2008 case study (Tiron Tudor, 2008), but its objectives were to estimate the impact of implementing the new accounting system on the level of local public authorities and to establish the perception of public sector professionals on the accrual accounting.

In our research, we considered two directions:

- On one hand, the differences between the national regulations and IPSAS;
- On the other hand, the disagreement between the national regulations issued by authorities and the accounting practices of the public sector institutions.

The first part is argued in the literature review section where we presented the provisions of IPSAS and Romanian laws. The second part is based on the answers received to a questionnaire distributed only to the accountants involved in the preparation of the financial statements from the public entities.

The study is structured in:

- Review of the Romanian and foreign literature in the area;
- Outline of the research approach;
- Presentation of the arguments that support our results and the analysis of the data collected;
- Presentation of the conclusions, including the limits of our work.

## 2. Literature review

### *2.1 History and present in the public accounting in Romania*

Accounting for public institutions in Romania was a field where the first radical reformations took place in the year 1929 by the introduction of the *double-entry bookkeeping principle*, system which was also transferred to the next generations. Beside this fundamental change, Demetrescu (1972), quoted by Calu (2005) also notices other novelty items for that time which were transferred to the next generations: the obligation of stock taking of the public patrimony; the introduction of the 12 month budgetary year instead of the 18 month budgetary year; the nomination of the legal completion term in which a budget is prepared and presented to the hierarchically superior entity and the introduction of a separation between ordinary and investment expenses; the establishment of the phases for the payments: engagement, liquidation, ordering and payment, improving the control for each phase. We remark that these items are currently present in the regulations with relation to accounting for public institutions organization.

After 1949, the public sector accounting has assumed some characteristics of the Soviet accounting system: the individual financial statements of public entities were vertically consolidated and the Ministry of Finance elaborated, on this basis, the balance sheet which was presented to the government, together with general account of the execution of the state budget, chart of accounts is introduced, expenses are classified by nature, introduction of funds, fixed assets and petty inventories.

When the communist period ended in 1989, accounting for the public institutions was, to some extent, an exception to the rule in terms of designing a new system in the context of economy type changes. Given that in the public sector the property type has not been changed, accounting mechanisms used in the past have been further used until 2005, thus the characteristics of the socialist period being mostly retained.

Changes made during the year 2005 in relation to accounting for public institutions concerned the introduction of some regulations which existed at that time at international level, the practice of the accrual accounting being the most significant fact. In this process, elements from the financial accounting in Romania were also taken (for example the structure of the chart of accounts and the accounting principles).

Till December 2005 communes local governments applied a cash single entry accounting system composed initially by five registers: cash, revenues, charges, fixed assets and inventories, and completed in the last two years with two other registers: debtors and depreciation. Charges were recognized only when they were paid out and revenues were recognized only when they were cashed in. So there was no record for liabilities.

About the benefits of switching to accruals, the accountants take into consideration the following reasons: to provide better quality information to managers and other users, to improve the quality of financial management, to enhance compatibility with the national and European accounts, because we are required to switch, whatever the merits, no idea (Tiron Tudor, 2008).

### *2.2 Presentation of national and international regulations regarding financial statements prepared by public sector institutions*

International Federation of Accountants (IFAC), through International Public Sector Accounting Standards Board (IPSASB) has promoted accrual accounting on the public sector level. Thus, beginning with 1997 and till present, there have been issued twenty-six International Public Sector Accounting Standards (IPSAS) that aim to constitute high quality references for public sector institutions all over the world involved in the process of preparing financial statements. Out of the twenty-six IPSASs, 25 are based on accrual accounting and one considers financial reporting under cash accounting. IPSASB regulations are also meant to improve the quality and transparency of financial reporting in the public sector, as well as to strengthen public trust in the financial management of this sector.

According to IPSAS 1 „Presentation of Financial Statements", **the objectives of the general purpose financial statements** issued by public sector institutions are to provide useful information for decision-making and for demonstrating entity's responsibility towards the resources that were entrusted to it.

Romanian regulations are inspired from IPSAS provisions, without similarly emphasizing the objectives of financial statements. Table 1 presents comparatively the way objectives are defined both by IPSAS and by national regulations.

**The objectives of the financial statements**

**Table 1**

| Objectives according to IPSAS | Similarities inside OMFP 1917/2005 |
|---|---|
| To provide information useful in the decision-making process | Accounting (…) must provide the chronological and systematically registration, processing, publishing and keeping information regarding financial position, financial performance and cash flows both for internal requests and for external users. |
| To demonstrate entity's responsibility concerning the resources that were entrusted to it | The accounting of public sector institutions provides information to budgetary credit managers regarding the execution of revenues and expenses budgets, the budgetary execution result, the managed patrimony, the patrimonial result (economic), the cost of budget approved programs, but it also provides information necessary for preparing the annual general execution account for state budget, the annual execution account of social insurance state budget and of special funds. |

As component part of IPSAS 1, Appendix B establishes the **qualitative characteristics** that the information disclosed through financial statements should have in order to be useful to the interested parties. Thus, these characteristics are:

- *Understandability* – information is understandable when the users, presumed to have a minimum of knowledge in the field, reasonably understand it.
- *Relevance* – information is relevant to the users when it helps them to evaluate past, present or future events, to confirm or to correct previous assessments. Relevance of information is influenced by its nature and significance and also, by the timing in disclosing it.
- *Reliability* – reliable information does not contain any material errors and interpretations, and users can rely on a true and fair view of the reality it represents or it is expected to represent.
- *Comparability* – information disseminated through financial statements is comparable when users can identify similarities and differences between that information and the one presented in other reports. Comparability is assessed in space and time.

In Romania, accounting policies must be prepared so that the information provided by financial statements is:

a) relevant for the users needs in decision-making process; and
b) reliable in the way that:
   - faithfully represents patrimonial result and financial statement of public sector institution;
   - it is objective;
   - it is prudent;
   - it is complete under all significant aspects.

**Components of the financial statements** provided in IPSAS and in OMFP 1917/2005 are:

**Components of the financial statements**

**Table 2**

| Components of the financial statements according to IPSAS | Components of the financial statements according to OMFP 1917/2005 |
|---|---|
| Statement of financial position | Balance sheet |
| Statement of financial performance | Statement of patrimonial result |
| Cash flow statement | Cash flow statement |
| Statement of changes in net assets/equity | Statement of changes in net assets/equity |
| Notes, comprising a summary of significant accounting policies and other explanatory notes | Notes to financial statements, comprising accounting policies and other explanatory notes |
| A comparison of actual and budget amounts either as a separate additional financial statement or as a budget column in the financial statements | Budgetary execution account |

According to IPSAS 1, **the statement of changes in net assets/equity** must contain at least the following information:

a. surplus or deficit for the period;
b. each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;

c. total revenue and expense for the period (calculated as the sum of a. and b.), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
d. for each element of net asset/equity separately disclosed, the effects of changes in accounting policies and correction of errors, recognized according to IPSAS.

Also, an entity must present, either on the face of statement of changes in net assets/equity or in the Notes:

a. the amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owner;
b. the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and
c. to the extent the components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net asset/ equity at the beginning of the period and at the end of it, separately disclosing each change.

OMFP 1917/2005 emphasizes the fact that "the statement of changes in net assets/equity must offer information regarding the structure of equity, the influences resulted from changes in accounting policies, influences resulted from revaluation of assets, calculation and registering depreciation or from correction of accounting errors. The statement presents in a detailed way the increases and decreases during the year of each component of equity accounts."

According to IPSAS 1, as part of the financial statements, entities should present **Notes**, which shall:

- ✓ present information about the basis of preparation of the financial statements and the specific accounting policies used;
- ✓ disclose the information required by IPSASs that is not presented on the face of the statement of financial position, statement of financial performance, statement or statement of changes in net assets/equity or cash flow statement; and
- ✓ provide 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.

According to our national regulations in force, Notes to financial statements „contain information regarding evaluation methods for assets, as well as any additional information relevant for the users' needs concerning financial position and results obtained. The Notes are presented systematically. For each significant element in the balance sheet, there has to be information in the Notes."

**IPSAS 2 „Cash Flow Statements"** provides the fact that this statement must report cash flows during the period grouped in three categories of activities: operating, investing, financing.

Operating cash flows can be reported based on two methods:

a) *direct method*, which presumes the presentation of the main categories of cash receipts and cash payments; or
b) *indirect method*, which presumes that net surplus or deficit are adjusted for the effects of non-monetary transactions, any revenues or expenses associated to investing or financing cash flows and any deferrals or accruals of past or future cash receipts or payments.

Entities are recommended to use direct method due to the predictive content of information presented as such. This method offers the possibility of estimating future cash flows; disregard the indirect method which doesn't disseminate information for prediction. Those entities applying direct method for preparing cash flow statement are encouraged to disclose, either in the Notes or on the face of the cash flows statement, a reconciliation of operating cash flow with the operating surplus or deficit.

In Romania, the method provided by OMFP 1917/2005 is only the direct one, with transactions detailed on specific accounts (cash in hand, bank account, etc.), but presenting total amounts of cash receipts and payments on activities.

Special attention is given to the way **budget** is reflected inside financial statements prepared by public sector institutions. Thus, IPSAS 24 „Presentation of Budget Information in Financial Statements" provides the minimum requirements for disclosing the relationship budget – financial statements, as follows:

- presentation of a reconciliation between initial and final budget, either in the components of financial statements, or as a separate component;
- presentation of the accounting basis used for preparing the budget;
- if the basis for preparation the budget (cash accounting) differs from that used in the financial statements (accrual accounting), the presentation of a reconciliation between cash and accrual accounting;
- the significant differences between budgeted and actual amounts must be explained in the notes.

All the requirements of IPSAS 24 are observed by the Romanian law.

### *2.3 Similar studies*

According to Gårseth-Nesbakk *et al.* (2008), accrual accounting is probably the most visible phenomenon within the financial reorientation in the public sector, referred to as New Public Financial Management (NPFM). Accrual accounting in the public sector has been the subject of a number of studies, divided into categories by Gårseth-Nesbakk *et al.* Thus, some have studied initiations while others have paid much focus on whether users find such information relevant. Studies have also covered the technical aspects of accrual accounting. According to Newberry (2006), quoted by Gårseth-Nesbakk *et al.* (2008), the results of some of the studies show that accrual accounting has not been used in an intended way.

Another study was conducted by Caba-Pérez *et al.* (2008) and it took into consideration the convergence of financial reporting in MERCOSUR (Common Market of the South) countries to the IPSAS. As a result of this research there have been established three main results. First of all, the adoption of public sector accounting of MERCOSUR countries to the IPSAS financial reporting requirements presumes the implementation of major changes that affects not only the balance sheet presentation, but also its content. Second, considering the balance sheet that has to be presented, a consensus has been reached for the necessity of preparing a document containing assets and liabilities, but there are divergent opinions regarding the place where the information should be disclosed, on the face of the document, or in the notes. The third result of the research was that none of the statements recommended by IPSAS was fully implemented in annual financial reports of public sector institutions from MERCOSUR countries. The authors of this study have concluded that, from the qualitative point of view, annual financial reports of public sector institutions from MERCOSUR countries do not fulfill the level of disclosing the information required by IPSAS.

Tiron Tudor performed in 2008 a study about the new public accounting system in Romania. Her conclusion was that people who work in accounting department in local public governments in towns, municipalities and communes need to develop the necessary skills and training must be provided for both the preparers and users of financial information. At the communes level there are few, if any, skilled accountants employed and where financial management is seen as of lesser importance than legal compliance. She considers that the first step toward the accrual accounting system was made in Romania by implementing OMFP 1917/2005.

## 3. Research methodology. Sample description

In our research we chose to survey the financial statements presented by the public institutions. The first part of our research relies on a review of the Romanian and foreign literature, as well as the national and international accounting standards. In the second part we made a positive research, formulating a questionnaire sent to the persons responsible with the elaboration of the financial statements in a number of public entities. The entities chosen represent locally subordinated entities in five counties: Buzău, Dâmboviţa, Neamţ, Vâlcea, Timiş. In order to perform this research we distributed 78 questionnaires and we received answers from 63 entities. The study was performed in the period September – October 2008.

In order to see if there is any correlation between the independent and dependent variables we chose Chi-square test ($\chi^2$). It tests a *null hypothesis* that two criteria of classification are *independent*. If two criteria of classification are not independent, there is an association between them.

Chi-square is calculated by finding the difference between each observed and theoretical frequency for each possible outcome, squaring them, dividing each by the theoretical frequency, and taking the sum of the results:

$$\chi^2 = \sum_{i=1}^{n} \frac{(O_i - E_i)^2}{E_i}$$

where: $O_i$ = an observed frequency;
$E_i$ = an expected (theoretical) frequency, asserted by the null hypothesis.

We computed $\chi^2$ using *Statistica* soft. The statistical significance (p–level) of a result is an estimated measure of the degree to which it is "true" (in the sense of "representative of the population"). The level of the significant probability is p = 0.05. The value of the *p*-level represents a decreasing index of the reliability of a result. The higher the *p*-level, the less we can believe that the observed relation between variables in the sample is a reliable indicator of the relation between the respective variables in the population. If the computed $\chi^2$ is equal to or greater than the critical $\chi^2$, the null hypothesis ($H_0$) is rejected. Otherwise, we could do not reject $H_0$.

In case we couldn't establish a correlation, we presented graphics that show the distribution of the answers.

The hypothesis we formulated to accomplish the research were:

**GENERAL HYPOTHESIS**: The financial statements presented by the public entities in Romania do not offer enough information for the decision making and for proving the responsibility of the public entities for the resources they were entrusted.

H1: There is a direct correlation between the offer of information available for the users of the financial statements and the type of the public company.

H1.1: There is a direct correlation between the offer of information available for the users of the financial statements and the type of the credit ordinator (primary, secondary or tertiary)

H1.2: There is a direct correlation between the offer of information available for the users of the financial statements and the size of the public entity (established according to the number of employees)

H1.3: There is a direct correlation between the offer of information available for the users of the financial statements and the size of the public entity (established according to the total amount of assets).

H2: The way of presenting the amounts in the budget observe the rules concerning the form.

**4. Results and analysis**

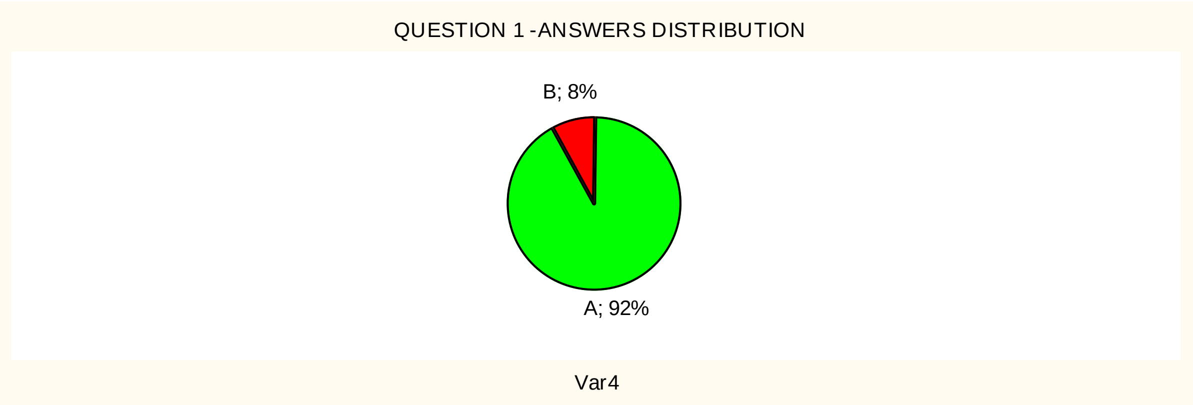
**H1: There is a direct correlation between the offer of information available for the users of the financial statements and the type of the public company.**

In order to identify the type of the public company, we used three measures: the financing way (what level of institution it is), the number of employees (less then fifty and more then fifty), and the total assets (less then 1.000.000 RON or more then 1.000.000 RON).

In order to establish the offer of the financial information we formulated within our questionnaire the following questions:

- **Do you think that the users of the financial statements can easily access them?**

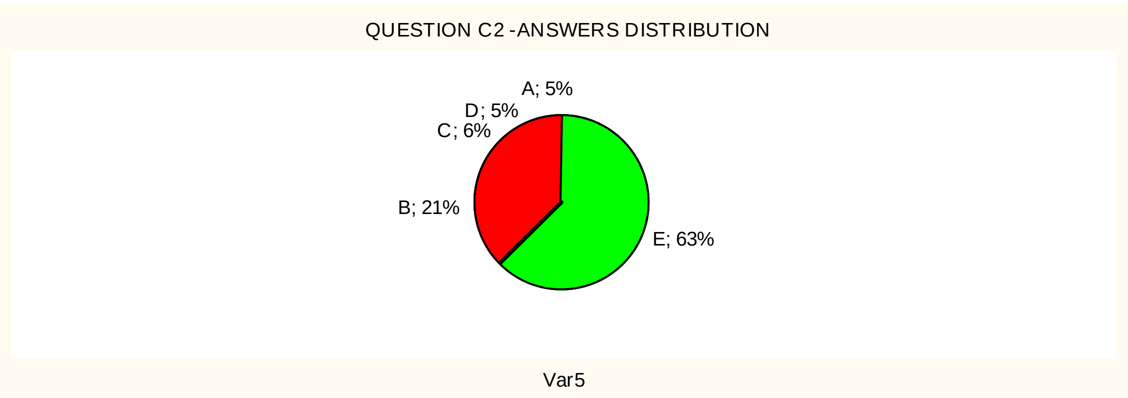
According to the answers received the result is as follows:




Analyzing the answers distribution we find out that the opinion of the accountants from the public institutions is that there is proper financial accounting information.

- **Do you think that the set of financial statements, prepared and presented according to the current regulations, provides users with information:**
  a. Intelligible;
  b. Relevant;
  c. Credible;
  d. Comparable in time and space;
  e. That meet all the qualities listed above.

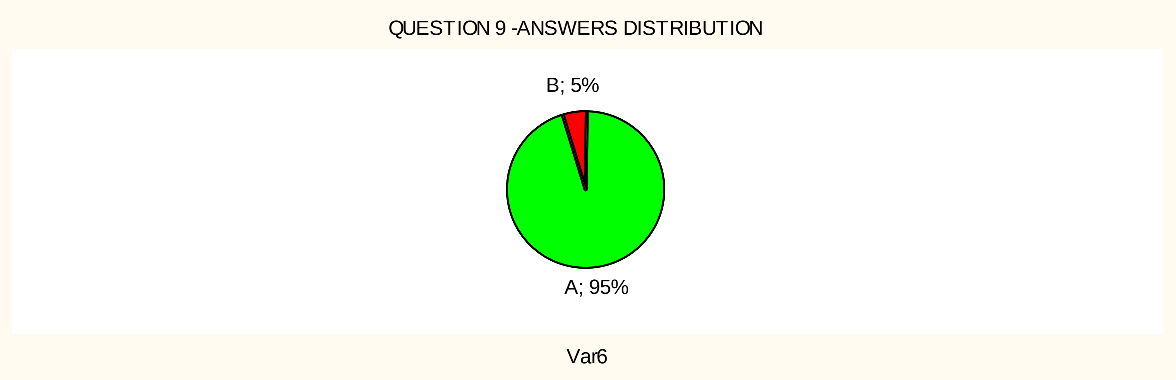
According to the answers received the result is as follows:




Analyzing the answers distribution we find out that the opinion of the accountants from the public institutions confirms the need to track all the quality components in the decision-making process.

- **What method would you choose for the preparation of the cash flow statement if you had this option:**
  a. Direct method;
  b. Indirect method.

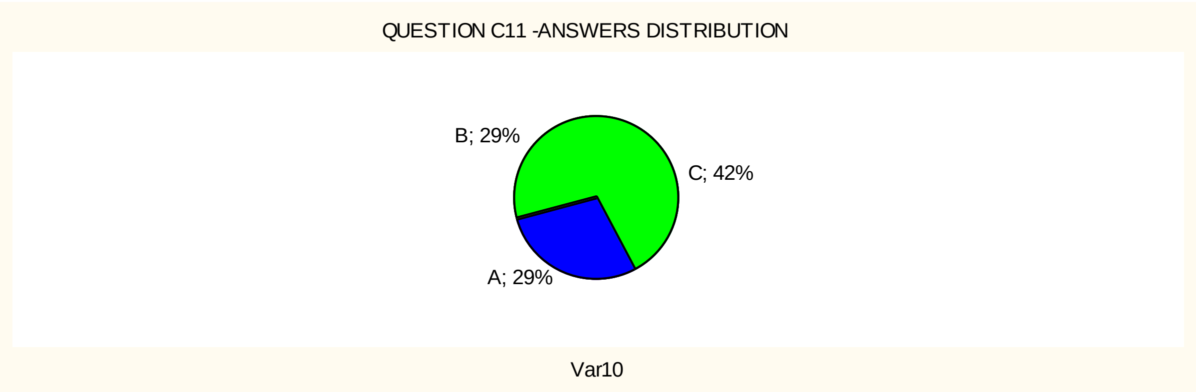
According to the answers received the result is as follows:




Analyzing the answers distribution we find out that opinion of the accountants from the public institutions leads to an emphasized preference for the direct method. We have to add that this is the only method presented by the present Romanian rules.

- **In case you use the direct method to prepare the cash flow statement, do you also present a reconciliation between the cash flow from the operating activity with the result from the operating activity:**
  a. Yes, in the explanatory notes;
  b. Yes, as a part of the cash flow statement;
  c. No.

According to the answers received the result is as follows:

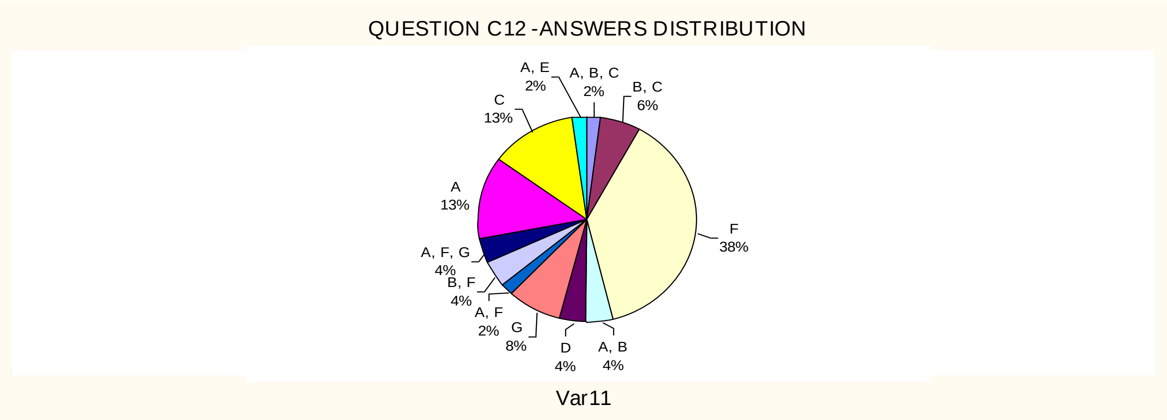



Analyzing the answers distribution we notice the tendency of offering detailed information about the use of the direct method (58%), either in the explanatory notes (a = 29%), or as a part of the cash flow statement (b = 29%).

- **Which of the following elements are presented in the Statement of Changes in Net Assets/Equity in your case:**
  a. Surplus or deficit for the period;

b. Each item of revenue or expense for the period that, as required by other Standard, is recognized directly in net assets/equity (for instance, the revaluation reserves), and the total of these items;
c. Total revenue and expense for the period (calculated as sum of (a) and (b));
d. For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with the accounting rules in force;
e. The amounts of transactions with owners acting in their capacity as owners (in your case, the hierarchically superior entity), showing separately distributions to owners;
f. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period;
g. To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.

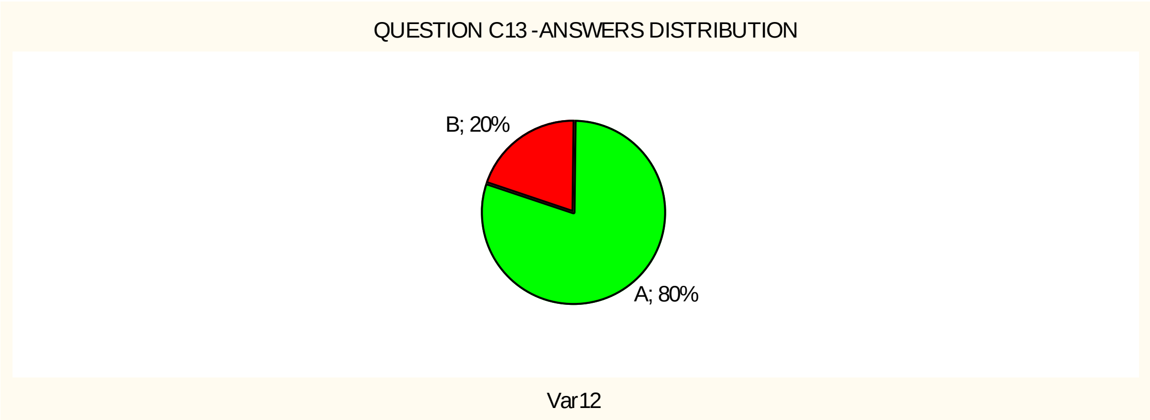
According to the answers received the result is as follows:




Analyzing the answers distribution we notice their polarizing. However, an important number of respondents indicated their preference towards the disclosure of the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period (38%).

➢ **Do you disclose Notes to the financial statements?**

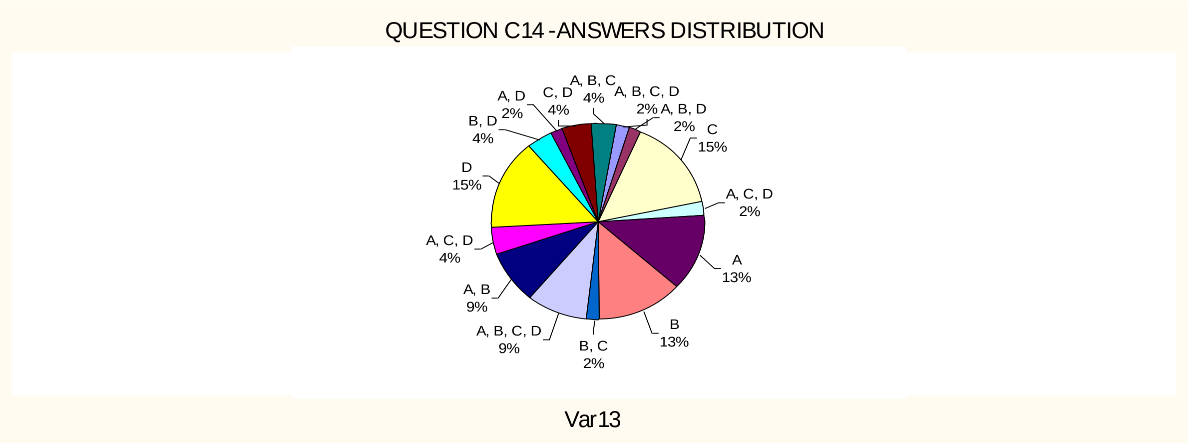
According to the answers received the result is as follows:




Analyzing the answers distribution we notice the accountants' tendency to disclose detailed information in the notes to the financial statements.

- **Within the Notes to the financial statements you present:**
  a. Information about the basis of preparation of the financial statements (cash accounting or accrual accounting);
  b. The specific policies used, including the valuation bases used for the assets and liabilities disclosed in the financial statements;
  c. Information required by the rules in force 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;
  d. Additional information that, even though is not requested by the rules in force, is relevant to an understanding of any of the financial statements.

According to the answers received the result is as follows:




Analyzing the answers distribution we notice that the Notes contain mostly (15%), either information required by the rules in force that is not presented on the face of the financial statement or additional information that, even though is not requested by the rules in force, is relevant to an understanding of any of the financial statements. Only 9% of the respondents prepare Notes that include all the items mentioned in the question.

In order to identify the existence of a dependency relationship, we formulated the following specific hypotheses:

**H1.1: There is a direct correlation between the offer of information available for the users of the financial statements and the type of the credit subordination (primary, secondary or tertiary)**

**H1.2: There is a direct correlation between the offer of information available for the users of the financial statements and the size of the public entity (established according to the number of employees)**

**H1.3: There is a direct correlation between the offer of information available for the users of the financial statements and the size of the public entity (established according to the total amount of assets).**

For this we tested the relationship dependencies that exist between the variables described in the questions above and the type of the public entity, established according to one of the criteria (the type of the subordination, the number of employees or the amount of the total assets).

We can say about the **hypothesis H1.1.** that it wasn't confirmed and there is no relationship (the Chi-Square test had values bigger then 0.05).

In the **hypothesis H1.2.** we wanted to test if there is a difference between the ways that accountants in big institutions (with more than 50 employees) think and the perception of the accountants in small entities. For this we noticed the existence of the following correlations:

**Variable 2 – the number of employees within a company and variable 4 – the possibility of a quick access to the information offered by the financial statements**

For this we addressed the following question: do you consider that the users of the financial statements have access easily to them? After we received the answers, we noticed that the accountants in the entities with more then 50 employees considered that the access of the users to the financial statements is easy. 97.3% of the accountants in the entities with more then 50 employees considered that the access of the users to the financial statements is easy compared to the accountants employed in the small entities that considered in a percentage of 84% that the access of the users to the financial statements is easy. We applied the Chi-square test in order to test the possible statistical correlations. The test indicated the existence of a statistical correlation with a 95% significance level (Chi-square = = 0.05), as follows:

| | **Chi-square** | **df** | **p** |
|---|---|---|---|
| **Pearson Chi-square** | 3.558077 | df=1 | p=.05 |
| **M-L Chi-square** | 3.584384 | df=1 | p=.05 |

We consider that one of the reasons is the existence of more developed information systems in the bigger public entities.

**Variable 2 – the number of employees within a company and variable 12 – the presentation of notes to the financial statements**

For this we addressed the following question: do you present notes to the financial statements? After we received the answers, we noticed that most of the accountants in big entities disclose financial statements. 88.89% of the accountants in the entities with more then 50 employees present information in the notes, while only 68% of the accountants in small entities prepare this document. We applied the Chi-square test in order to test the possible statistical correlations. The test indicated the existence of a statistical correlation with a 96% significance level (Chi-square = 0.04), as follows:

| | **Chi-square** | **df** | **p** |
|---|---|---|---|
| **Pearson Chi-square** | 4.074044 | df=1 | p=.04 |
| **M-L Chi-square** | 4.031079 | df=1 | p=.04 |

An explanation would be that theoretically all the public entities should present notes, but generally the small entities present only the information explicitly requested by the Ministry of Finance. One cause is, in our opinion, their professional competence. The accountants in the big entities had access to training, unlike the accountants in the small entities, especially in the villages that, for many reasons, had access harder to the professional training. Even more, plenty of the accountants in the last category don’t have college degree.

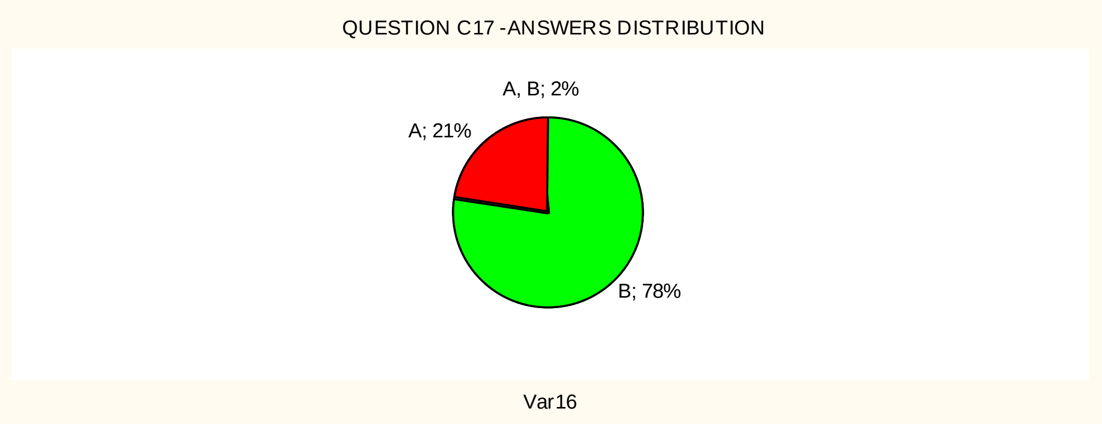
We consider that another explanation is that the accountants in big entities encounter more situations than the ones in the small entities. Some of these situations are not dealt with within the standard annexes.

As for the **hypothesis H1.3** it wasn’t confirmed, as there is no correlation (the Chi-Square test had bigger values than 0.05).

**H2: The way of presenting the amounts in the budget observe the rules concerning the form.**

- **For the preparation of the budget you use:**
  a. The concepts of the cash accounting;
  b. The concepts of the accruals accounting (if you chose this answer go to question 20).

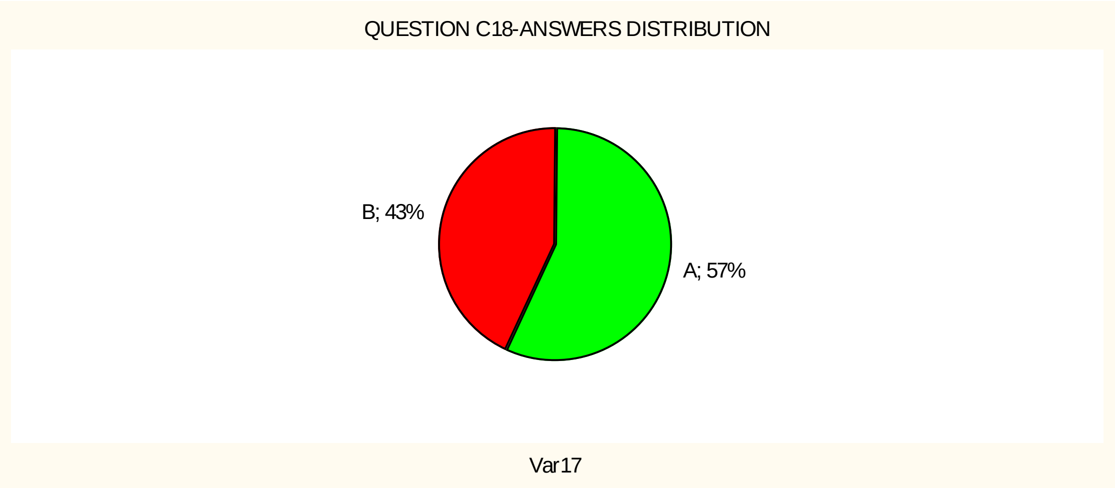
According to the answers received the result is as follows:




Analyzing the answers distribution we notice that most of the persons questioned use the accrual accounting for the preparation of the budget. Unfortunately, this opinion is wrong. In Romania we use specific reports that involve the budget for any payment made. Thus, everybody uses the cash accounting for preparing theses documents and from our practical experience we can say that all the requests of the IPSASs concerning the aspect debated are observed. The answers received to this question reveal, in our opinion, a poor understanding of the concepts, an attitude of obedience of the accountants in the public entities as to the accruals concepts.

- **Do you present a reconciliation between the cash accounting (used for the budget) and the accruals accounting (used for the financial statements according to the OMFP 1917/2005)?**

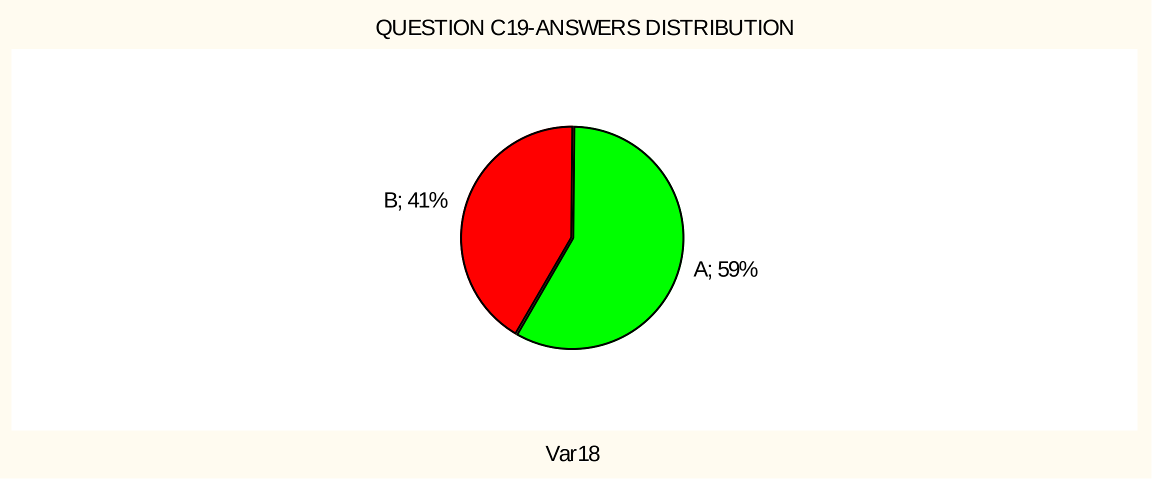
According to the answers received the result is as follows:



Analyzing the answers distribution we notice that 57% of the accountants questioned present reconciliation between the cash accounting used for the budget and the accrual accounting used for the disclosure of the financial statements. In fact, all the accountants that answered this question present reconciliation as it is a specific annex to the financial statements.

- **Do you mention the accounting basis (cash accounting or accrual accounting) in the notes to the financial statements?**

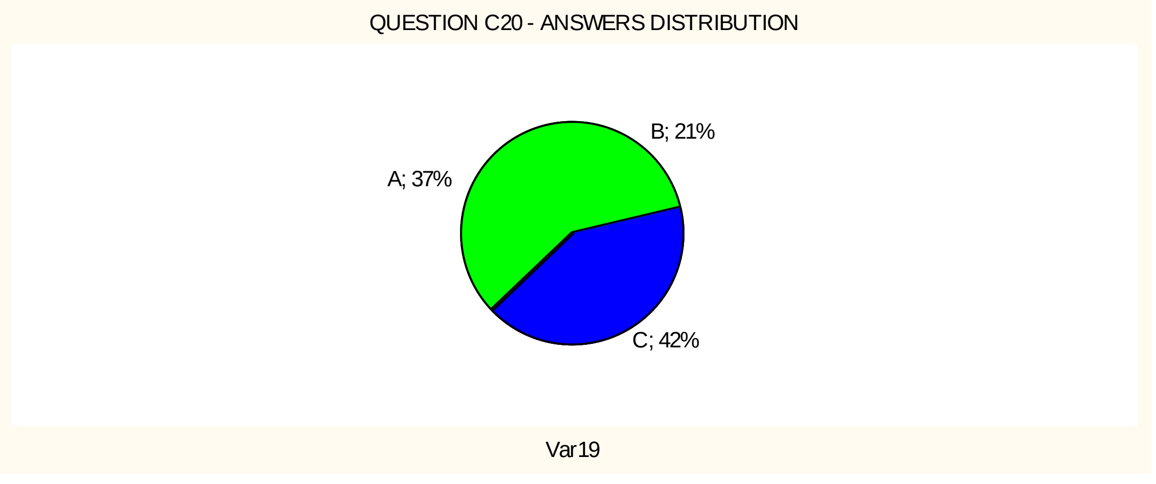
According to the answers received the result is as follows:




Analyzing the answers distribution we notice that most of the accountants from the public entities consider that they have to disclose in the notes to the financial statements the concept used for their preparation – cash or accrual accounting. 59% consider that it has to be presented, but only 44% disclose it in the notes.

- **Do you present an explanation for the changes of the final budget as to the original budget:**
  a. Yes, by way of note disclosure in the financial statements;
  b. In a report issued before the financial statements and the notes to the financial statements includes a cross reference to it;
  c. None of the previous…………

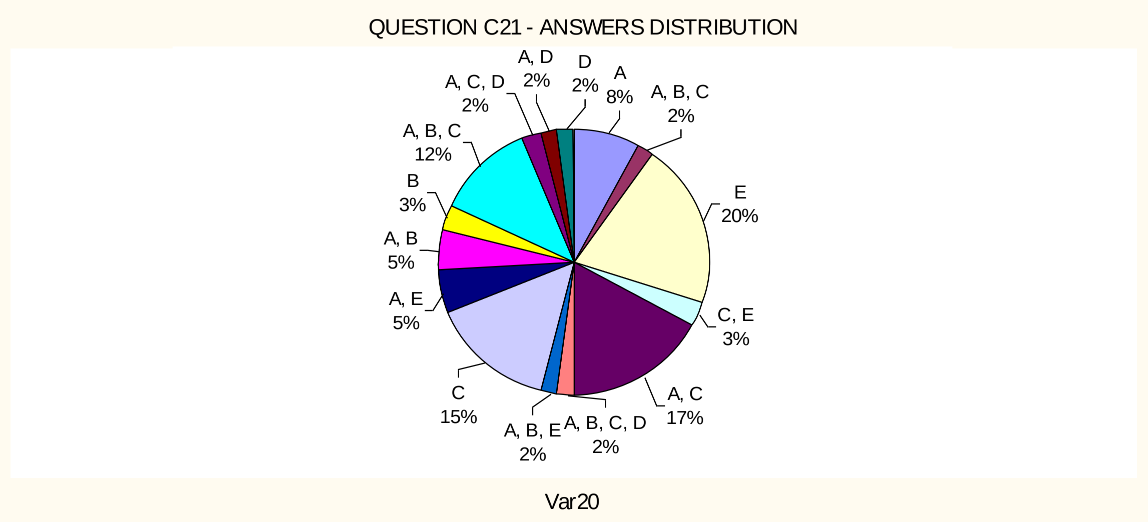
According to the answers received the result is as follows:



Analyzing the answers distribution we notice that the opinion of most of the accountants in the public entities is wrong. In fact, the Romanian regulations ask for the reconciliation to be presented in an annex to the financial statement. The request is convergent to the IPSASs, as it is a possibility presented by them.

- **When preparing the budget for the next year, you consider:**
  a. The contracts for the next year;
  b. The historical cash flows;
  c. Information from the statement of financial position;
  d. Amounts from the statement of financial performance;
  e. Something else...................................................................... .

According to the answers received the result is as follows:




Analyzing the answers distribution we notice that the opinion of the accountants in the public entities is quite spread, each of them choosing the source according to the activity area, level of knowledge, experience etc.

## 5. Conclusions

The first step towards the accrual accounting system was made in Romania by creating a legal framework. Budget and accounting categories at the national level have a common set of classifications conform to international standards that facilitate analysis. There are still problems in the accounting rules for the public entities (for instance, the coexistence of the concept of patrimony and the substance over form principle). We consider that one of the reasons for these inconsistencies is that this is only the first form of the new accounting regulation and many of the problems will disappear in the next forms.

Making further progress in this area will require substantial investment in staff development and training, supported in many cases by EU twinning projects and other technical assistance programs. We consider that there is a huge need of training for the accountants in the public entities, as they do not grasp the difference between the cash and accrual accounting. They consider the new accounting system only an imposed rule. We can draw this conclusion as we could see that most of the accountants consider for instance that they use accrual accounting concepts in order to prepare the budget, even if it is legal to use the cash accounting for this.

The new regulation was not enough developed in the description of financial statements and their content, especially the cash flow statement. This fact had negative impact in understanding the links between each component of financial statements set and the importance of each financial statement. The Cash flow statement, for instance, is only prepared because it is being asked for, as the public entities are obliged to present it at the state treasury in order to obtain a visa for the exactness of the cash payments, balances of the bank accounts, in order to ensure the agreement of the information in the accounting of the public entities, with the one of the treasury.

About the new set of financial statements all respondents realized the increased complexity of the financial statements implemented by the new accounting system. They understand the role of developing accounting policies and the connections between the budget execution account and the other components of the financial statements.

From the results obtained, we consider that the quality of the annual public financial reports does not reach the standards of information disclosure recommended by the IPSAS and that important changes need to be implemented, affecting not only the statements provided but also their content.

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[i] This research was financed by the Research Contract 797/2007 DEVELOPMENT OF ROMANIAN ACCOUNTING REGULATION BETWEEN HEREDITY AND TANATOGENESIS and Research Contract 1827/2009.

[ii] This represents a managerial philosophy used by world countries governments since the ‘80es for modernizing the public sector. NPM tried to transfer the functioning principles of the private sector towards the public sector, being market, results and efficiency – oriented through a better management of the public budget. According to NPM, the beneficiaries of the public services are treated similarly to clients and the citizens of a country are viewed as shareholders, which determine as one of the key elements of this philosophy the transition from cash accounting to accrual accounting so that the users of accounting information could benefit of relevant information in the decision – making process – http://en.wikipedia.org/wiki/New_Public_Management.