

THE PUBLIC INSTITUTIONS ACCOUNTING POLICIES AND PROCEDURES MANUAL – THE ENTITIES ACCOUNTING PROFESSIONALS’ OR THE SPECIALIZED FIRMS’ DESIGN?

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Abstract: *The accounting regulations in force, by OMFP no.1917/2005 with their subsequent changes and completions, namely OUG no.37/2011 modifying and completing the Accountancy Law no.82/1991, foresee, for public institutions, the elaboration and the approval of an Accounting Policies and Procedures Manual, respecting the specific of the activity undertaken by each public entity. Given its approval by credit sequencers, an Accounting Policies and Procedures Manual can assure the unitary application of the legal provisions, also reducing the possibility of error occurrence. Going step by step through the structures included in the manual, the present material aims to identify whether it can be designed by the accounting professionals in each public institution – who know well the reality and the specific of each entity – or the simpler solution of its acquisition from specialized firms should be adopted. At the same time, by the distribution of a questionnaire in the administrative-territorial units/county councils/other public institutions of Dâmbovița, Argeș and Prahova County, we tried to identify the actual situation in the local public sector entities.*

Keywords: *Accounting policies, procedures manual, public entities, evaluation rules.*

INTRODUCTION

In time, the financial reports of the public sector entities have evolved in direct connection to the complexity of the activities undertaken by them, so that internationally the International Public Sector Accounting Standards (IPSAS)[1] emitted by IPSASB of IFAC have been taken over by an increasing number of States as reference in the accounting domain. The IPSAS standards are reliable accounting standards, established independently, by means of a rigorous procedure, being supported by governments, national and international professional accounting organizations, generating by their implementation a series of advantages such as [2]: significant increase in the quality of the financial reporting by public institutions; increased credibility and transparency of the information presented; a better internal control and a greater transparency for assets and debts; more detailed information on the costs useful in facilitating the result-based management; more complete information facilitating resource management and administration, providing services efficiently and obtaining results; evaluating responsibility on the level of all the resources that the public institution manages; making decisions regarding resource provision or the development of new activities; evaluating the financial statement, performance and treasury flows of public institutions; a better coherence and a better comparability of the financial statements due to the fact that each standard calls for the presentation of uniform, detailed and specific information.

In our country, the Public Finances Minister, as unique regulator, is in charge of the elaboration of the national accounting, audit and control norms for the public sector and certainly with the convergence of the national with the international regulations. The Romanian public accounting, in the context of Romania's public adherence to the European Union, recorded major progresses by the passage from the cash accounting to the accrual accounting, the implementation of the financial reports relying on the same accrual accounting in agreement with the generally accepted accounting principles, the elaboration of the consolidated financial statements on the level of the public sector, etc.; however, one cannot state that the reform process is completed, the Romanian regulator body in charge of the norm harmonization initiating measures able to permit in a near future to integrally take over the IPSAS standards in the local system of reference for accounting. Starting from this reality, the Romanian accounting professional is faced with challenges in point of the reasoning, ethics and strategy adopted. The theory, practice and experience owned by the public domain offer alternatives that the accounting specialists must judge in order to choose, so that the great challenge the accounting profession will need to face is the remodeling of the credibility and trust of the categories of users regarding the reality of the data provided by the financial statements. In this context, the public entities need an accounting policies manual to assure a unique basis of application of the accounting treatments.

DOMAIN KNOWLEDGE

Starting from the reality of the need to realize in the Romanian public entities a manual of accounting policies and procedures [3], the objective of such a material is to establish the policies, principles and accounting treatments applied in accounting management and draft the trimestrial and annual financial statements. The Manual comprises the rules of recognition, evaluation at the moment of the recognition, evaluation at the date of the financial statements, but also at the exit from gestion of elements like assets and debts, and also the rules regarding the recognition and evaluation of the revenues and expenses, the treatment of the capitals, the application of the accrual accounting principle when recording revenues and expenses, etc. The accounting policies adopted in the manual approved by each public institution are applied along with the legislation specific of the activity domain and the provisions of the trading and funding contracts concluded, in which the entity is part. In the structure of the accounting policies manual, a public institution could integrate at least the following structures:

A first chapter in which, beside general information related to the *presentation of the institution*, elements such as the following can be dealt with – *accounting policies* – definition and objectives, *general reporting framework* with the following components: a) accounting organization and management, b) accounting registers and c) trimestrial and annual financial statements.

A second chapter in which the following elements can be treat: *accounting principles can be approached*: a) principle of continuity in activity; b) principle of permanence of the methods; c) principle of prudence; d) principle of accrual accounting; e) principle of exercise independence; f) principle of separate evaluation of the elements

of assets and debts; g) principle of intangibility; h) principle of non-compensation; i) principle of comparability of the information; j) principle of materiality or of or of the significance degree; k) principle of prevalence of the economic over the juridical aspect, *general evaluation rules*: a) evaluation at the date of entry in the entity; b) evaluation on the occasion of the inventory; c) evaluation at the conclusion of the budgetary exercise; d) evaluation at the date of the exit from the entity, and *error correction*.

A separate chapter for each of the following: *the accounting policies regarding the assets of the public institution* (fixed assets, current assets like stocks, etc.), *the accounting policies regarding debts and credits*, *the accounting policies regarding availabilities and short-term investments*, *the accounting policies regarding the recognition of revenues and expenses*, *the accounting policies regarding capitals*, *the accounting policies regarding provisions*, *the accounting policies regarding the European non-reimbursable funds*.

Since the delimitation above is the projection of the author, the structure of the manual of accounting policies and procedures can suffer changes from one entity to the next depending on the approach of each accounting professional, the objective of the present study being not to set a structure of the manual but rather to identify to what extent it can be realized on the level of the entity by its own specialists.

MODELLING AND TREATMENTS APPLICABLE TO THE STRUCTURES COMPOSING THE ACCOUNTING POLICIES MANUAL

3.1. Accounting policies modelling and the general reporting framework for public institutions

In the present material we have not set our self the goal of approaching gradually the structures that are part of the manual but rather the aim of dealing with those that could raise some difficulties during their modeling by accounting specialists of the public institutions.

If we refer to the *accounting policies*, they are not very difficult to model. Conceptually, the accounting policies consist in the set of principles, bases, conventions, rules and specific practices of recognition, evaluation and presentation in the financial statements of the balance sheet, patrimonial results account, and in the accounting management rules. At the level of each public institution the accounting policies are elaborated so as to assure the provision, by means of the financial statements, of information:

- relevant for the users' decision-making needs;
- credible, in the sense that: a) they faithfully represent the assets, the debts, the financial position and the surplus or the deficit of the entity; b) they are neutral, devoid of influences; c) they are prudent; d) they are complete under all the significant aspects;
- comparable, in the sense that the users can compare the financial statements of the institution in time.

Once established, the accounting policies do not change (an exception are the modifications required by the law and those having as a result more credible information

regarding the operations of the public institution), consequently assuring a consistent basis from one budgetary exercise to the next, regarding the reporting of the results. This means that any variation of the results, from one budgetary year to the next, reflects real fluctuations of the activity of the entity, and does not represent simply the influence of the accounting modifications. The users will consequently be able to detect long-term trends of the results and financial flows.

Regarding the *general reporting framework*, according to Art.22 in the Law no.500/2002, with its subsequent modifications and completions, the manager is responsible for the accounting update and for the presentation in due time of the financial statements regarding the situation of the patrimony under administration and the budgetary execution. The public institutions will organize and manage their financial and management accounting by means of a distinct department led by the economic manager, or based on a service provision contract concluded with trading companies of accounting experts or with authorized persons, according to the law, members of CECCAR (The Body of Expert Accountants and Authorized Accountants of Romania). The accounting of the institution needs to assure information to the managers regarding the execution of the budgets of revenues and expenses, the result of the budgetary execution, the patrimony under administration, the patrimonial (economic) result, the cost of the programmes approved by the budget and information necessary to draft the general annual execution account.

The obligatory *accounting registers* are: the Daily Register, the Inventory Register and the Big Book. The following auxiliary daily registers can also be used (only the ones really used shall be chosen): daily register for cash and bank operations, daily register for the operations with the providers, statement of voucher payment-cashing in, daily register for consumptions and for stocks exits, daily register for salaries and contributions for social insurance, social protection for unemployment and health insurance, daily register for various operations.

The drafting of the financial statements, as a process, is preceded by the general inventory of the elements of assets, debts and capitals. The financial statements are signed by the head of the institution and by the head of the financial-accounting department and must provide a faithful image of the assets, debts, financial position and financial performance and of the patrimony result.

In the case of the main credit sequencers the financial statements are obtained by the centralization of all the financial statements of the public institutions with juridical personality subordinated to them, including the secondary credit sequencers who also centralize the financial statements of their own activity and of the institutions coordinated by them.

The handing over of the financial statements for public institutions with secondary or tertiary credit sequencers is realized at the superior hierarchic organ, according to the deadlines set by it. For public institutions with main credit sequencers the trimestrial and annual financial statements are handed over to the Public Finances Minister or the General Public Finances Directorates of each county and of Bucharest Municipality, according to case, a copy of the trimestrial financial statements in maximum 45 days since the conclusion of the trimester of reference, and a copy of the

annual financial statements in maximum 50 days since the conclusion of the budgetary exercise.

Given that the modeling of the accounting policies, the general reporting framework, and the drafting of the financial statements do not raise major construction problems, we consider that the contribution of the accounting professionals of the public entities is enough to delineate these aggregates and to draft the introductory part of the accounting policies manual.

3.2. Accounting principles applicable, general rules for evaluation and error correction

Out of the *accounting principles* applicable to the public entities we shall go through the ones taken over recently, accompanying the harmonization of the Romanian public accounting with the international standards in force IPSAS, namely: the principle of accrual accounting, the principle of materiality or of the significance degree and the principle of prevalence of the economic over the juridical aspect.

In agreement with the accrual accounting, the effects of the transactions and of other events are recognised when the events and transactions occur and not as the cash or its equivalent comes in or go out.

The principle of materiality admits that any element with a significant value must be presented distinctly in the framework of the financial statements, i.e. elements with insignificant values but having the same nature or similar functions will be summed up and presented in a global position.

In agreement with the principle of prevalence of the economic over the juridical aspect, it is considered that the accounting information presented in the financial statements must be credible, respecting the economic reality of the events and not just their juridical form.

The general evaluation rules do not generate a special set of problems, respecting the evaluation at four moments: at entry in the institution, at inventory, at the end of the budgetary exercise, and at the date of exit from the entity.

At the date of their entry in the entity, goods are evaluated and recorded in accounting at their entry value, established as follows: a) at their acquisition cost - for the goods acquired in exchange for money; b) at their production cost - for the goods produced in the institution; c) at their just value - for the goods obtained for donation or noticed as surplus during the inventory. In the Romanian public institutions, the modeling of the just value is not yet the responsibility of the accounting professionals, as the provisions of the international standards IPSAS admit, but is determined based on the report drafted by the authorized evaluators, being approved later on by the manager.

The evaluation of the assets and liabilities elements on the occasion of the inventory is realized according to the legal regulations and norms emitted in this sense by the Public Finances Ministry, namely OMFP no.1753/2004.

At the end of the budgetary exercise, the evaluation is realized at the entry value in accordance with the inventory results, and at the exit from the institution, goods are taken out at their entry value.

Errors represent those omissions and, respectively, erroneous declarations comprised in the financial statements for one or several previous periods, as a

consequence of the use/non-use of information that: a) was available when the financial statements of the previous periods were drafted; and b) could have reasonably been obtained and taken into consideration when those financial statements were drafted and presented.

Errors may include mathematical mistakes, errors of application of the accounting policies, ignoring or interpreting the wrong way events and frauds. The *correction of the errors* noticed in accounting after the approval and the handing over of the financial statements is realized in the year when they are noticed. The errors pertaining to the current budgetary exercise are corrected based on the patrimonial result account, just as the errors pertaining to the previous budgetary exercises are realized based on the reported result.

After having dealt with the structures concerning the accounting principles, the evaluation rules used and the accounting errors, we will approach the modeling of the accounting policies applicable to each patrimonial structure.

3.3. Modelling the accounting policies applicable for each patrimonial structure

In establishing the accounting policies for the elements of assets, debts, capitals managed by the public institutions the starting point are the four moments of recognition, synthesized as in the table below:

Table no.1 Recognition of patrimonial structures

	Value at entry			Inventory value	Value in the financial statements			Value at exit
	Basic treatment (historical cost)				Va	Vlc	Vr	
	CA	CP	VJ	Va	Vlc	Vr	Va	VI
Assets								
bought	☐			☐	☐	☐	☐	☐
produced		☐		☐	☐	☐	☐	☐
by transfer			☐	☐	☐	☐	☐	☐
Debts	☐			☐	☐		☐	☐
Revenues			☐		☐		☐	
Expenses	☐	☐			☐		☐	

Legend: CA-acquisition cost, CP-production cost, VJ-just value, Va-updated value, Vlc -value at entry corrected by depreciation, Vr – reevaluated value, VI-value at entry

Later on, we shall also deal with all the other particularities specific of the patrimonial structure. Without considering the list below exhaustive, the accounting professionals of the public entities will approach in-extenso:

- for fixed intangible/tangible assets are highlighted: recognition and initial evaluation, particularizing the separate acquisitions, the assets acquired based on a lease contract and those produced from own resources; evaluation following the initial recognition; subsequent expenses; reevaluation; amortization and exceptions in its calculation; adjustments regarding losses from depreciation; cassation, disposal and ceasing from use; accounting documents;

- financial assets will be approachable from the perspective of the initial evaluation and, respectively on the balance sheet date;
- for goods like stocks, what is dealt with is their recognition, with the particularities met in the case of libraries, goods in the State reserve and for mobilization, goods confiscated and turned into the private property of the State/administrative-territorial units; their initial evaluation and that of the date of the balance sheet; evaluation methods at the exit from entities, etc.
- to the debts of the public institutions will be allotted paragraphs regarding the providers, the settlement of accounts with the personnel/pensioners/unemployed, with the State budget, local budgets and other budgets; receivables of the State/local budget /State social security /unemployment insurances /Unique National Fund for Social Health Insurances; the settlement of accounts between public institutions; debts in foreign currency, etc.;
- the receivables of the institution will be evaluated both at the entry and at the date of the balance sheet;
- the availabilities of the public entities concern the cashing in and payment operations undertaken by means of the State treasury;
- the expenses and the revenues will be recognized based on the accrual accounting principle.

From what we presented above, one can easily establish that the accounting professionals in each public institution can model and update the accounting policies manual according to the concrete situations the entity is faced with.

RESEARCH METHODOLOGY AND SAMPLE

The intention of our research was not just to demonstrate the accessibility of the elaboration of the manual by the accounting professionals of the entity but also to catch a glimpse of the actual reality of the field. Our approach had in view a descriptive transversal research; the research method used being the survey by means of a questionnaire distributed to the administrative-territorial units/county councils/other public institutions of Dâmbovița, Argeș and Prahova County. Initially, in the sample were included 147 public entities, yet the lack of feed-back led us to the analysis and interpretation of only 89 questionnaires distributed during the period February-March 2016. The questionnaire comprises 12 questions grouped into two categories – details concerning the responding entity and profile of the accounting professionals in the sample, respectively their perception on the way of formalization/application/ updating of the accounting policies manual. Regarding the information related to the type of entity and its professionals involved as respondents to the questionnaire, we considered the following 3 structures useful:

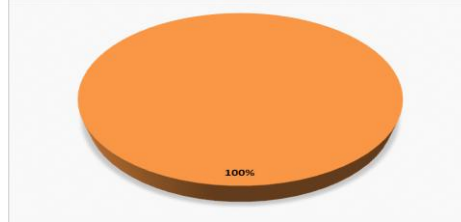
1. The responding entity belongs to the category: a) county councils; b) administrative-territorial units; c) other public institutions.
2. The person answering the demands of the questionnaire identifies himself as: a) CECCAR-member accounting professional (economic manager, economist, etc.); b) accounting professional; c) another person.

3. The level of the respondents' studies: a) university; b) high-school.

Regarding the formalization of the accounting policies in a manual and its updating, we drafted 9 questions presented below:

4. Does the entity have an accounting policies manual?

Figure no.1: Holding by the public institutions of the accounting policies manual

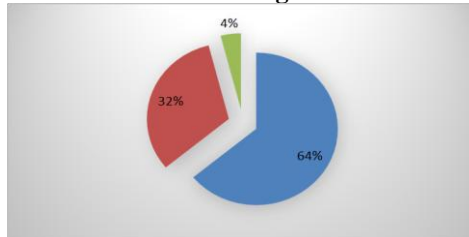


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We identified no situation in which the entities questioned do not hold any accounting policies manual, respecting therefore the legal provisions in force (modification of the Accounting Law no.82/1991 by the Emergency Government Ordinance no.37/2011). Any public institution needs a system of reference given by the accounting policies and procedures manual, but also a system of control regarding the way it is applied.

5. Is the elaboration of the manual the result of the work of the accounting professionals of the entity?

Figure no.2: The elaboration of the manual is the design of the accounting professionals of the entity

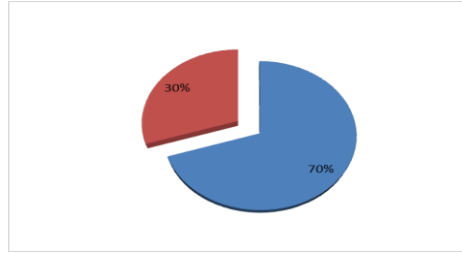


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In 64% of the cases the accounting policies manual is obtained from specialized firms, 32% are the result of the work of the accounting professionals of the entity, and 4% do not know how the accounting policies manual was realized/obtained.

6. If your answer to the previous question was yes, mention the information sources used in the elaboration of the accounting policies manual: a) legislation in force; b) legislation in force completed by information acquired through the participation in annual professional training courses/seminars; c) other sources.

Figure no.3: Information sources used in the elaboration of the accounting policies manual in public institutions

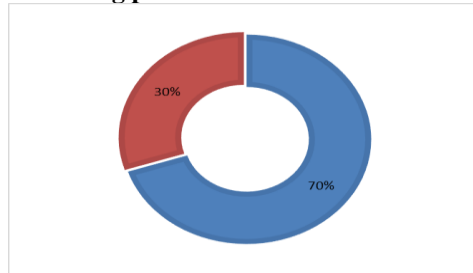


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70% of the respondents used in the elaboration of the accounting policies manual the legislation in force completed by information acquired during courses and seminars, while 30% also used other sources.

7. Was the accounting policies manual updated?

Figure no.4: Updating of the accounting policies manual

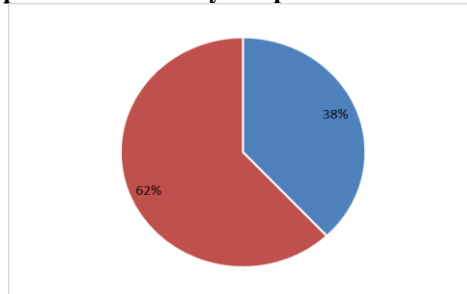


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70% of the responding entities affirm that the accounting procedures manual was updated, whereas 30% affirm the contrary.

8. If your answer to the previous question was yes, mention if in the institution there is a person/team designated to update the accounting policies manual?

Figure no.5: Designation of a person of the entity to update the accounting policies manual

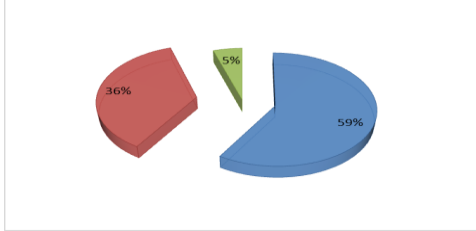


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38% of the responding institutions designated a person of the entity to update the accounting policies manual, while 62% bought the novelty elements from specialized firms.

9. Are there in the entity procedures regarding the application of the accounting policies manual?

Figure no.6: Existence of application procedures of the accounting policies manual

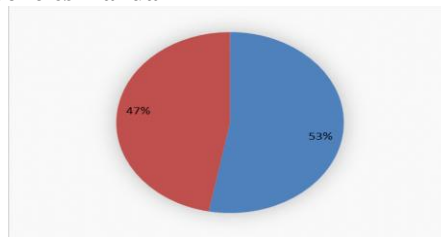


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59% of the responding entities affirm that the accounting professionals have elaborated procedures of application of the accounting policies manual, whereas 36% declare that no such procedures have been elaborated. 5% of the interviewees do not know if application procedures for the accounting policies manual have been elaborated or not.

10. In the internal audit missions, were improvement recommendations given for the application procedures of the accounting policies manual?

Figure no.7: The existence of recommendations regarding the improvement of the application procedures of the accounting policies manual

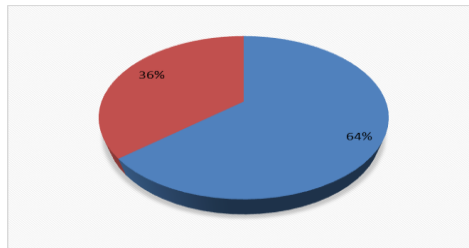


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53% of the respondents affirm that in the public institutions they are part of were given recommendations of improvement of the application procedures of the accounting policies manual, while 47% affirm the opposite.

11. Have the accounting professionals of the entity benefited of professional training classes during the last three budgetary years?

Figure no.8: Existence of annual professional training programmes by participating in courses and seminars

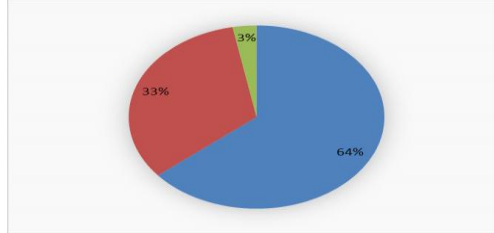


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36% of the respondents affirm that they benefited of professional training classes during the last three years, whereas 64% affirm the opposite.

12. Is the accounting policies manual held purely formally to avoid the sanctions imposed by the legislation in force?

Figure no.9: Holding of the accounting policies manual to avoid sanctions



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64% of the respondents consider that the accounting policies manual is held only formally to avoid being sanctioned by the control organs, while 33% affirm the opposite. 3% had no answer to the question above.

RESULTS INTERPRETATION

In the approach of the research initiated, we have identified no public entities holding no accounting policies manual; yet, the respective working tool is only 32% the result of the work of the accounting professionals in the entity, the decisive weight of the acquisition of the manual from specialized firms leading to the formulation of the hypothesis according to which the specialists of the public entities questioned are not preoccupied by its formalization. What could be the event generating this lack of preoccupation regarding the accounting policies manual in the professionals' structures/departments of the entities questioned? A possible solution to this set of problems could be given by the analysis and interpretation of the answers to the questions no. 6, 7 and 11, namely: given that in the elaboration/ updating of the accounting policies manual the professionals of the entities questioned consider that along with the legislation in force the information acquired by the participation to professional training courses/seminars is essential, the lack of professional development programmes for them has led, to a certain extent, to the acquisition of the manual from specialized entities. Yet, this is not the only, nor the main cause; the non-involvement of the accounting professionals of the public entities in the elaboration/ updating of the manual rather has to do with its being held only purely formally, as one can easily observe from the interpretation of the answers to the questionnaire.

At the same time, although the respondents affirm that in the entities they are part of there are application procedures for the accounting policies manual (59% of the cases), the need to improve them identified during the audit missions undertaken confirms the lack of preoccupation of the accounting specialists for solving the problem, with direct implications in the purely formal holding of the manual, to avoid sanctions.

Despite the fact that the accounting professionals in the Romanian public institutions can model and update the accounting policies manual according to the concrete situations the entities are facing, the reality surprises us by an acute lack of preoccupation for this problem, the manual being held purely formally, to avoid being sanctioned by the control organs.

INSTEAD OF CONCLUSIONS ...

Although the Romanian public accounting has recorded significant progress during the last few years, by the introduction of new accounting regulations and the harmonization of the existing ones with the International Public Sector Accounting Standards – IPSAS, however the process is far from being finished. The IPSAS standards establish the criteria regarding the recognition, evaluation, description and presentation of the information in the transactions and events in financial situations with a general purpose, yet harmonization involves a transition process calling for much more than a change of accounting techniques. There are many factors that need to be considered for this approach to be successful. According to the present material, in the elaboration of the accounting policies manual – a basic component of the international regulations IPSAS, the determination of the set of procedures for all the operations developed by each public entity, also in agreement with its specific, ought to be left in the hands of the economics specialists of the entity. In the research undertaken we gradually aimed to grasp both the theoretical capacity of the accounting professionals of the entities questioned of elaborating the accounting policies manual and the reality of the field. And, although theoretically things can be achieved without great difficulties, practically our accounting professionals do not take on this responsibility, turning to the services of the specialized firms. We can only hope that things will change over time.

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