Accounting and Auditing

Comparative Study on Presentation of Statement of Financial Position in the Public Sector

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Abstract: Although it is more than a decade since the elaboration of the first public accounting standards, countries are still reluctant to adopt them, preferring rather an adaptation of national legislation with the provisions IPSASs. Concerns about the necessity and usefulness of the application of International Public Sector Accounting Standards are due to economic influences, cultural, social, which made their mark on philosophy, doctrine and national accounting policies. Although financial statements may appear similar from country to country, there are differences that can be caused by a variety of social, economic and legal factors, and that some countries when setting the national requirements have considered the needs of different users of financial statements. These factors have led to the use of different definitions of the structures of financial statements, such as assets, liabilities, equity, revenues and expenses. Scope and disclosures in the financial statements were also affected. Therefore, this paper intends to emphasize similarities, but especially the differences between the two frames of reference - national norms to international standards - regarding Statement of financial position on a public institution.

Keywords: financial statements; harmonization; normalization; International Public Sector Accounting Standards; public accounting

JEL Classification: M40; M41

1 Introduction

The financial statements of public institutions must be adequately prepared in all material respects to reflect fairly the financial position, financial performance and cash flows of the entity, important information for users in making and evaluating decisions about the allocation resources. Financial reporting in public sector must demonstrate users the public entity responsibility of its resources by providing information on:

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- sources of funding of the entity and their allocation and use;
- how the entity has financed its activities and has met its cash requirements;
- assessing the entity's ability to finance its activities and to honor the debts and budgetary and legal accrual;
- changes in financial position of the public entity;
- entity's performance evaluation on costs, efficiency and achievements.

Public entity's financial statements can be predictive or prospective, providing information useful in forecasting the level of resources needed to continue activities, resources that could be generated by ongoing activities and associated risks and uncertainties. Thus, public sector financial reporting may indicate whether resources were obtained and used in accordance with the approved budget and legal and contractual provisions, including financial limits established by specific legislative authority in public domain. It is likely that some of the objectives of financial statements cannot be achieved because most public entities not primarily aimed at profit - meaning patrimonial result.

2 The National Norms

Through Order no. 1917/2005 it was attempted, as for economic agents, public accounting harmonization in Romania with IPSAS standards on the one hand, and public accounting compliance with European accounting directives, on the other. Base of Romanian public accounting convergence with IPSAS standards, is the financial statements, these being the interface between internal and external users, national and international. In Romania, by Order no. 1917/2005, public institutions must prepare financial statements give a true view of assets, liabilities, net assets and financial performance and the patrimonial result, requirement imposed by the European accounting directives.

Due to the application of legal regulations in terms of methodology on the financial statements, the set of financial statements prepared by public institutions in Romania is very close to the requirements of IPSAS:

- Order no. 616/2006, which regulates the composition of the financial statements of public institutions, ways of completing the fixed assets, inventories, receivables, liabilities, equity, revenue and expenditure budget execution);
- Order no. 2941/2009, which regulates balance sheet analysis, preparation of annexes to the financial statements, including accounting policies and explanatory notes;
- Order no. 1865/2011 according to which financial statements are presented in 2011.

The balance sheet provides information on the entity's financial position through the assets, liabilities and equity. Although not provide detailed information on financial performance, this is evidenced by the patrimonial result, an indicator included in equity.

2.1 Presentation of Assets

In accordance with national rules the structure of assets is presented in Table 1.

Table 1 The structure of assets according to national norms

Non-Current Assets	Current Assets
✓Intangible assets ✓Technical installations, vehicles, animals, plant, furniture, office equipment and other tangible assets ✓Land and buildings ✓Other non-financial assets ✓Non-current financial assets (*long-term investment, more than a year*) ✓Non-current receivables (*amounts to be collected after a period longer than one year*)	✓Inventories ✓Current receivables (*amounts to be collected in a period of less than one year*): - commercial receivables, advances and other settlements - budgetary receivables - receivables from operations with non-reimbursable external funds and budget funds - short-term loans granted ✓Short-term investments ✓Treasury and credit institutions accounts ✓Costs paid in advance

Fixed assets are an important component of public institutions, which include goods and values for long term use; they are not consumed after first use, but over time due to repeated use.

Intangible assets are identifiable assets, non-monetary, without physical substance that is used for a period exceeding one year. Intangible fixed assets are initially evaluated and recorded at:

- cost of acquisition, for those acquired by onerous title;
- cost of production, for those built or produced by the institution;

- fair value, for the assets entered in other ways than through acquisition or production (e.g., donations, sponsorships).

An intangible item reported as expenditure in a period not later be recognized as part of the cost of an intangible asset. In public accounting, fixed assets depreciation is recorded using s*traight-line method*. If the assets are removed from the accounts, and book value was not fully recovered through depreciation, the remaining depreciated value is included entirely in costs, at decommissioning.

An intangible asset should be presented in balance sheet at its cost (acquisition or production), less the cumulative value adjustments. Cumulative value adjustments comprise all corrections intended to take account of individual asset values reductions, set out at the balance sheet date, whether that reduction is final or not. Value adjustments can be permanent adjustments, known as depreciation, and temporary adjustments, known as depreciation adjustments.

Tangible fixed assets owned by a public entity are material assets that:
a) are held by an entity for use in the production of goods and services, to be rented to third parties or to be used for administrative purposes, and
b) can be used over several reporting periods.

In the fixed assets are shown separately *advances* and *tangible assets in progress*.

According to national norms, a tangible asset recognized as active, should be measured initially at the entry value which means:
a) revalued amount, in accordance with the law;
b) cost of acquisition, for those acquired by onerous title;
c) cost of production, for those built or produced by the institution;
d) fair value, for the assets entered in other ways than through acquisition or production (eg, donations, sponsorships), estimated based on report prepared by specialists, with the approval of the primary credit holder.

The costs of a tangible fixed asset should be recognized generally as expenses in the period in which they were made. The cost of repairs made to tangible fixed assets to ensure their continued use must be recognized as an expense in the period in which it is made. In case of modernization leading to upgrading of the original techniques, to improve performance or life of the asset, this is recognized as a component of the asset. For buildings and constructions, modernization should have the effect of increasing the comfort and environment. A tangible asset should be presented in the balance sheet at the entry value, less the cumulative value adjustments. Specific to national rules, fixed assets are classified in depreciable and non-depreciable assets, by providing additional information in the explanatory notes. The costs of a non-depreciable asset should be recognized entirely as an expense in the period in which they were made, by recording the input value of fixed assets that are not subject to amortization process (account 682"*Expenditures for non-depreciable assets*").

Financial assets under management of the public institution include: participation titles, fixed-term investment and fixed receivables. Financial assets recognized as active are initially evaluated at cost or value determined by acquisition contract. Incidental expenses on the acquisition of financial assets are recorded directly in the current costs of the exercise. Financial assets are presented in the balance sheet at entry value, less the cumulative adjustments for loss of value.

On the *circulating assets*, national rules indicates that on entry into the patrimony, inventories are evaluates to acquisition or production cost, as appropriate. Accounting techniques used in managing inventories are: FIFO method, LIFO method and Weighted Average Cost method. For public institutions FIFO method is recommended, but whichever method is chosen, it must be applied consistently for similar items by nature of inventories from one financial year to another. If in exceptional circumstances, the credit holders decide to change the method for a particular item of stock, the notes must disclose the reason for method change and its effects on the result. Inventories are not reflected in the balance sheet at an amount higher than what can be obtained by their sale or use. In such cases the value inventories is reduced to net realizable value by setting *adjustments for depreciation*.

2.2 Presentation of Liabilities

In accordance with national rules liabilities structure is shown in Table 2.

Table 2 Structure of liabilities according to national norms

Non-Current Liabilities	Current Liabilities
✓ Non-current amounts (*amounts to be paid over a period longer than one year*) ✓ Current non-commercial debt ✓ Long-term loans ✓ Provisions	✓ Commercial debt, payable advances and other settlements ✓ Budgetary debt ✓ Payables to the budget from non-reimbursable external funds ✓ Debt from operations with non-reimbursable external funds and budget funds, other debts to other international bodies ✓ Short-term loans ✓ Long-term loans (*amounts to be*

	paid in current year) ✓ Employee salaries ✓ Other employee benefits due to other categories of people (*pensions funds, unemployment allowances, scholarships*) ✓ Revenue received in advance ✓ Provisions

Third parties settlements accounting provides evidence of debts and receivables of the public institution in its relations with suppliers, customers, staff, social security, state budget, local budget, subordinated public institutions, debtors and creditors, and evidence of operations that cannot be registered and requires clarification further, and other settlements.

According to the Accounting Law no. 82/1991 republished, with subsequent amendments, on the date of financial statements, *receivables and liabilities in"lei"* are evaluated at their probable value of collection or payment. Accounting differences in minus between the inventory value established during the inventory and net book value of receivables is recorded due to adjustments for depreciation.

Receivables and liabilities in foreign currency shall be valued at the exchange rate published by the National Bank of Romania, valid for the last day of the reporting period. Receivables and liabilities from European Union grants shall be valued at the balance sheet date at the rate published by the European Central Bank, valid for the last day of the reporting period (for public institutions reporting periods are quarter and year budget).

Short-term liabilities (current debt) are external financial resources made available to the institution by the suppliers (commercial debt), the staff of the institution (social debt), the state budget (fiscal debt), the European Community (grants) or other third parties. Short-term debt are generated by institution relationships with individuals or legal entities relating to the purchase of goods, works and services, the use of labor, the payment of taxes, for which the institution must pay an equivalent value or provide a counterpart.

Receivables represent the public institution's claims to third parties, resulting from its relationship with socio-economic environment, relations from which the institution has advanced a good, work or service for which it should receive an equivalent value or a counterpart.

Pursuing how to report receivables and liabilities in the balance of the public institution in relation to the nature and liquidity of receivables, respectively nature and chargeability of liabilities, it is important to delineate the current receivables compared fixed receivables, and the current liabilities compared long-term liabilities.

2.3 Presentation of Equity

According to national accounting norms and also international, equity is defined as the residual interest of the state or territorial-administrative units, as owners of a public assets, after deducting all liabilities. The equity structure contains mainly the funds, the patrimonial result (economic result), retained earnings and revaluation reserves (Table 3).

Table 3 Structure of equity according to the national norms

Reserves **Funds**	**Retained earnings (surplus or deficit)**	**Patrimonial result of the exercise (surplus or deficit)**
✓ Fund of the intangible fixed assets ✓ Fund of goods constituting the public domain of the state ✓ Fund of goods constituting the private domain of the state ✓ Revaluation reserves ✓ Hospital development fund	✓ Retained earnings - public institutions funded entirely from the state budget ✓ Retained earnings - non-reimbursable external funds budget ✓ Retained earnings - public institutions and activities financed wholly or partly from its own revenues	✓ Patrimonial result - public institutions funded entirely from the state budget ✓ Patrimonial result - non-reimbursable external funds budget ✓ Patrimonial result - public institutions and activities financed wholly or partly from its own revenues

Equity of the public institution, as a stable source of funding, is the equivalent value of resources invested in assets by owner - the state (equity) or others third party (liabilities, debt).

Permanent equity category does not appear in public accounting, as private accounting, because according to the Law no. 500/2002 regarding to public finances, public entities cannot directly borrow from credit institutions, and long-term loans are contracted or guaranteed by the state to ensure financial resources for the entire system subordinate hierarchical.

Notice that in the accounts of public institutions, the category of *funds* is the first position (Table 3), representing public entity's own sources recognized in the case of fixed assets for which *depreciation is not calculated*.

Goods that are part of the public domain and territorial-administrative units are inalienable and indefeasible imperceptible, namely:

- cannot be alienated, are given in administration to autonomous administrations and public institutions only, leased or rented;
- cannot be subject to enforcement or real guarantees;
- cannot be acquired by others through usurpation, or the effect of possession in good faith on movable assets.

Private domain of the state or territorial-administrative units consists of goods owned and which are not in the public domain. State or territorial-administrative units have the right to private property on such goods.

Another element of capital is the *patrimonial result* (economic result). The result patrimonial is the result of the financial year (budget year) which is set at the end, by closing the accounts of expenditure on the one hand and the revenue and financing on the other. Such results include established rights and obligations unpaid during the budget year. Patrimonial result can be positive, as surplus, or negative, as deficit.

Retained earnings are the patrimonial result of previous financial years and are represented distinctly in statement of financial position.

In practice, it is frequently used concept of budget execution result obtained from comparing the net cash payments to actual expenditures, by category of financing sources. Budget execution result appreciates the extent of use of public money. At the beginning of the budget year, the balance of previous budget result is transferred to retained earnings.

Revaluation reserves are a significant component of the public capital to the extent that they are due to the revaluation of fixed assets operations. Revaluation of fixed assets is usually at *fair value* (present value, based on inflation or deflation influence) determined based on evaluations by licensed evaluators.

In case of fixed asset revaluation, which is subject to depreciation, depreciation rules apply to assets having regard to its value determined after revaluation. If the fair value determined is greater than the recorded book value, the difference will be recorded as revaluation reserve, and the asset will be reflected in the balance sheet at current value, namely fair value.

3 The International Norms

Internationally, defining the concept of performance in public accounting normalization is based on International Public Sector Accounting Standards (IPSAS). In this respect, the financial statements must provide aggregated information to users, useful in assessing the performance of the entity, in terms of cost of services, efficiency, respectively achievements.

International examples have shown that IPSASs introduction and reporting on budget process reform based on the same principles, have allowed effective description and transparency in the evaluation of public policies based on analysis of the results by reporting to clearly identified and quantified objectives.

Application of IPSASs has shown that if before the budget is tailored to the needs of the previous year and possibly on the basis of economic growth, new IPSAS based system allows on the one hand, identify the total amount spent, resources allocated, and therefore performance management, and on the other hand, establishing the link between policy objectives, budget, and expected results and obtained.

Reporting on the performance of public sector entities based on IPSAS, provides relevant information and demonstrates accountability of an institution for resources allocated. International practice in IPSAS implementation shows that such information relates to:

- sources, allocation and use of financial resources;
- how the entity has financed activities and has covered the cash requirements;
- assessing the entity's ability to finance its activities and to honor commitments;
- entity performance evaluation in terms of cost of services, efficiency, achievements;
- obtaining and using resources in accordance with legally adopted budget;
- forecasting resources needed to continue operations, resources that could be generated by ongoing activity, but also risks and uncertainties associated.

Regarding the statement of financial position, according to IPSAS, the entity has the option of separate classification of current assets and non-current assets, and current liabilities and long-term liabilities, based on the nature of its operations. When an entity chooses not to make this classification or no such distinction can be made, assets and liabilities should be presented broadly in order of their liquidity.

Entities can choose the way of presentation only if the option is used to obtain credible and more relevant information. Thus, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity’s long-term operations. In this way users of financial statements can be distinguished the assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. If another entity in the category of financial institutions, which not provide goods or services within a clearly identifiable operating cycle, the presentation of assets and liabilities will be in ascending or descending order of their liquidity, because it provides so much more reliable information and relevant than the current / long term presentation.

It is possible for entities with diverse operations to be used a mixed basis of presentation.

In the context of IPSAS 17"*Property, Plant and Equipment*", an item of property, plant and equipment should be recognized as an asset when:
(a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
(b) The cost or fair value of the asset to the entity can be measured reliably.

On initial recognition, the public entity will assess carefully whether an item satisfies the first criterion for recognition through the existence of sufficient certainty that future economic benefits or service potential will flow to the entity, which will receive the rewards attaching to the asset and will undertake also the associated risks.

The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. (purchase of materials, labor consumption and other consumption-related construction). In certain cases, cost is determined by reference to fair value.

IPSAS 17 states that certain tangible fixed assets under the administration of public institutions are described as"*heritage assets*" because of their cultural, environmental or historical significance (historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art). These heritage assets often have certain characteristics common only in this type of assets:

(a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
(c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Heritage assets held by public sector entities have been acquired over many years and by various means (purchase, donation, bequest and sequestration). It is unlikely that these assets to generate cash inflows, but these are preserved as heritage assets. Due to the characteristics and particular aspects, the potential of alternative services offered by certain heritage assets (such as an historic building being used for office accommodation) is sometimes difficult to determine the measurement base. Public sector entities that recognize heritage assets should provide disclosures on those assets, such as the measurement basis used, the depreciation method used, the gross carrying amount, the accumulated depreciation at the end of the period, a reconciliation of the carrying amount at beginning and end of the period showing certain components thereof.

Other assets are described in IPSAS 17 as"*infrastructure assets*", with the following characteristics:
(a) They are part of a system or network;
(b) They are specialized in nature and do not have alternative uses;
(c) They are immovable; and
(d) They may be subject to constraints on disposal.

Not to be understanding that the property of infrastructure assets is confined to public sector entities, but are found more frequently in public sector than in private sector (such as roads and railways, water supply & sewers systems, electricity and communication networks).

The initial evaluation of property, plant and equipment must be done in compliance with the criteria set out through the IPSAS 17:
a) An item of property, plant and equipment which qualifies forrecognition as an asset should initially be measured at its cost;
b) Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Considering specifications of IPSAS 17, it can hold that the initial recognition of an item of property, plant and equipment (acquired free or at nominal cost), at its fair value, it is not a revaluation. To determine the cost of tangible assets should be considered and taken into account the following: its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the allowed alternative treatment in IPSAS 5"*Borrowing Costs*". The cost of a self-constructed asset is determined using the same principles as the cost of producing assets for sale in the normal course of business. Recognition and the cost of that asset is made by taking into account the criteria set out in IPSAS 17 and IPSAS 12.

Under IPSAS 17, we notice that"*Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditures should be recognized as expenses in the period in which they are incurred*".

Public institutions made several subsequent expenditures relating to an item of property, plant and equipment that has already been recognized (current or capital repairs for fixed assets). The question is whether these costs are recognized (under what conditions?) or are capitalized.

In this sense, the standard specifies:
- subsequent expenditure on property, plant and equipment is only recognized as an asset when the expenditure improves the condition of the asset and lead to future economic benefits or service potential increased;
- subsequent expenditure relating to repairs or maintenance of tangible assets, made to restore or maintain the future economic benefits are recognized as a cost when they are generated.

On circulating assets, standard IPSAS 12"*Inventories*" considers that inventories are assets:
(a) In the form of materials or supplies to be consumed in the production process;
(b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
(c) Held for sale or distribution in the ordinary course of operations; or
(d) In the process of production for sale or distribution.

Also be noted that according to IPSAS 12, inventories definition is more complex because this category includes the inventories that are distributed without counter value or for a nominal fee (e.g., education manuals published by a health authority to be donated schools). Under IPSAS 12, inventories should be measured at the lower of cost and current replacement cost where they are held for:
(a) Distribution at no charge or for a nominal charge; or
(b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

According to the standard, the cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

According to IPSAS 1, a receivable should be classified as a current asset in the following situations:

(a) The receivable is expected to be achieved during the normal course of the entity's operating cycle;
(b) Is expected to be realized within twelve months of the reporting date.

All other receivables should be classified as non-current (fixed) receivables.

Also according to IPSAS 1, a liability should be classified as a current liability in the following situations:
(a) Is expected to be settled in the normal course of the entity's operating cycle; or
(b) Is due to be settled within twelve months of the reporting date.

Transactions related to receivables and liabilities in foreign currency generate foreign exchange differences recognized in accordance with the allowed alternative treatment in IPSAS 4"*The Effects of Changes in Foreign Exchange Rates*".

According to IPSAS 1, the equity is also called net assets, through deductive mode of determination from balance sheet (format list):

Net assets / Equity = Total Assets - Total Liabilities

IPSAS 1 indicates the following structure of equity:

- Contributed capital, being the cumulative total at the reporting date of contributions from owners (usually the state), less distributions to owners (e.g., payments made to the State);
- Accumulated surpluses or deficits, determined by comparing revenues with expenses recognized during the period;
- Reserves, including a description of the nature and purpose of each reserve within equity; and
- Minority interests, the part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

National norms appreciates *the patrimonial result (economic result)* as a component of equity; under IPSAS 3"*Net Surplus or Deficit for the Period - Fundamental Errors and Changing in Accounting Policies*", the patrimonial result (surplus/deficit) is a residual amount that remains after expenses have been deducted from revenue.

4 Case Study

We illustrated the preparation of the Statement of Financial Position as of 31 December 2010 at City Hospital Targu Bujor from Galati, through a comparative overview of national norms with international standards (Figure 1).

NATIONAL NORMS

The Balance Sheet
as of December 31, 2010

Indicators	31-Dec-09	31-Dec-10
ASSETS	X	X
NON-CURRENT ASSETS	X	X
Intangible assets	0	0
Technical installations, vehicles, animals, plant, furniture, office equipment and other tangible assets	261.851	252.115
Land and buildings	1.578.390	1.578.390
Other non-financial assets		
Non-current financial assets		
Participation titles		
Non-current receivables, *of which:*		
Non-current commercial receivables		
TOTAL NON-CURRENT ASSETS	1.840.241	1.830.505
CURRENT ASSETS	X	X
Inventories	405.926	413.136
Current receivables	X	X
Commercial receivables, advances and other settlements, *of which:*	0	0
Commercial receivables and advances, *of which:*	0	0
Advances		
Budgetary receivables, *of which:*	0	12.490
General consolidated budget receivables		
Receivables from operations with non-reimbursable external funds and budget funds, *of which:*		
Amounts to received from the European Commission		
Short-term loans granted		
Total Current Receivables	0	12.490
Short-term investments		
Treasury and credit institutions accounts	X	X
Treasury accounts, cash, cash equivalents, cash advances, *of which:*	624.812	959.205
Deposits		
Accounts from credit institutions, cash, cash advances, *of which:*	3.722	4.074
Deposits		
Total cash and cash equivalents	628.534	963.279
Central Treasury cash accounts		
Costs paid in advance		
TOTAL CURRENT ASSETS	1.034.460	1.388.905
TOTAL ASSETS	2.874.701	3.219.410
LIABILITIES	X	X
NON-CURRENT LIABILITIES	X	X
Non-current amounts, *of which:*		
Non-current commercial debt		
Long-term loans		
Provisions		
TOTAL NON-CURRENT LIABILITIES	0	0
CURRENT LIABILITIES	X	X
Commercial debt, advances and other settlements, *of which:*	131.136	182.056
Commercial debt and advances, *of which:*	8.566	13.525
Payable advances		
Budgetary debt, *of which:*	53.848	96.123
Budgetary debt of public institutions, *of which:*	53.848	96.123
Social contributions	41.538	43.430
Payables to the budget from non-reimbursable external funds		
Debt from operations with non-reimbursable external funds and budget funds, other debts to other international bodies, *of which:*		
Payables to European Commission		
Short-term loans		
Long-term loans (*amounts to be paid in current year*)		
Employee salaries	86.563	77.269
Other employee benefits due to other categories, *of which:*		
Pensions funds, unemployment allowances, scholarships		
Revenue received in advance		
Provisions		
TOTAL CURRENT LIABILITIES	271.547	355.448
TOTAL LIABILITIES	271.547	355.448
NET ASSETS = EQUITY	2.603.154	2.863.962
EQUITY	X	X
Reserves and funds	602.461	1.565.390
Retained earnings (surplus)	913.520	2.000.409
Retained earnings (deficit)		
Patrimonial result of the exercise (surplus)	1.087.173	0
Patrimonial result of the exercise (deficit)	0	701.837
TOTAL EQUITY	2.603.154	2.863.962

INTERNATIONAL NORMS - IPSAS

Statement of Financial Position
as of 31 December 2010

	31-Dec-09	31-Dec-10
ASSETS		
Current Assets		
Cash and cash equivalents	628.534	963.279
Receivables	0	12.490
Inventories	405.926	413.136
Prepayments		
Investments		
	1.034.460	1.388.905
Non-current assets		
Receivables		
Investments		
Other financial assets		
Infrastructure, plant and equipment	261.851	252.115
Land and buildings	1.578.390	1.578.390
Intangible assets		
Other non-financial assets		
	1.840.241	1.830.505
Total assets	2.874.701	3.219.410
LIABILITIES		
Current liabilities		
Payables	98.155	215.037
Short-term borrowings		
Current portion of long-term loans		
Provisions		
Employee benefits	173.392	140.411
Superannuation		
	271.547	355.448
Non-current liabilities		
Payables		
Long-term borrowings		
Provisions		
Employee benefits		
Superannuation		
	0	0
Total liabilities	271.547	355.448
Net assets	2.603.154	2.863.962
NET ASSETS/EQUITY		
Capital contributed by other government entities		
Reserves	602.461	1.565.390
Accumulated surpluses /(deficits)	2.000.693	1.298.572
Minority interest		
Total net assets/equity	2.603.154	2.863.962

Figure 1 Comparative structure of Statement of Financial Position

5 Conclusions

It can be concluded that presentation of financial statements is a complex process of aggregation of data to create financial indicators on situation of the patrimony and the results obtained in a public institution.

We appreciate that at present the annual financial statements of public institutions in Romania, although largely converging to IPSAS standards, they do not attain exactly the quality standard recommended by IPSASs. Efforts are needed from Romanian normalization organizations, but also some changes to the financial statements, which affects not only the presentation but the content of financial statements, as follows:

First, we must recognize the difficulties inherent specific to any attempt of harmonization, especially because an accounting standard for public sector must take into account the distinctive features of public sector. In addition, using the IAS, IPSASs do not have their own specific conceptual basis for public sector so that public accountants didn't have the experience of implementing IAS.

Strictly on statement of financial position, the most significant *changes* required by IPSAS standards refer to:

- Application of the *patrimony principle*, which involves recording the asset in active and their depreciation each year, including separate treatment of certain categories of assets, frequently encountered in public sector, e.g., heritage assets and infrastructure assets. Identification of assets and recognition of their depreciation, helps managers to understand the impact of using fixed assets in service delivery and encourages them in consideration of alternative ways of managing costs and service delivery;
- Application of the *prudence principle*, which requires the recognition of provisions even for pensions, and the evaluation and recognition of contingent liabilities and contingent assets. Special attention will be given to *restructuring provisions*, due to the public sector exposure to various and multiple forms of restructuring.

Second, the financial statements prepared by public institutions should be characterized by simplicity and clarity to be accessible to a broad scope of users, and should contain only the necessary indicators, with high information content. Public sector financial statements, prepared in accordance with national norms are very comprehensive and complex, and the information they provide, often can be interpreted only by the professional accountants, and some of these are not necessary and relevant information. Many balance sheet information should be presented in annexes or in explanatory notes to the financial statements.

We note also the issue of content and completion of elements of financial statements, which differ by category of institutions according to their type, the financing and the profile of their activity, so absence of uniformity is even between different categories of public institutions or between different sectors. Financial statements prepared in accordance with IPSAS look the same everywhere in the world, in every country.

Finally, we emphasize the need to reduce complexity and considerable volume of financial statements in public sector, to develop accounting policies and explanatory notes and to increase connections between the budget execution account and the other components of financial statements.

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Aspects of Accounting and Financial Analysis Service Outsourcing: a Romanian Approach

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Abstract: In January 2010, Forbes magazine published an article with an attractive title: *Romania – became an accounting outsourcing destination.* The article states that our country has fully entered the market of accounting service outsourcing. Also, the results of a study ordered by PricewaterhouseCoopers in 2010 confirm that outsourcing has encountered a revival in the last six months and the trend is ascending. The director of PricewaterhouseCoopers says that companies still resort to service outsourcing primarily to reduce costs but at the same level, customers began to also appreciate other aspects such as high efficiency, high quality services and, of course, access to high-level talent and expertise. In the above mentioned context, in author's opinion, the theme of the current research seems appropriate as it proposes and emphasize of the fundamental aspects of outsourcing in general and specific issues related to outsourcing the services of accounting and financial analysis. This study illustrates novel aspects related to the requirements for outsourcing accounting services in our country and captures the authors' opinion on the possibilities of outsourcing the financial and economic analysis services, since these belong to a quite sensitive category. If this information comes across foreign hands, the financial and accounting information can be used for destructive purposes.

Keywords: outsourcing; outsourcing accounting service; outsourcing financial analysis service

JEL Classification: M15; M41; O31

1. Introduction

From a conceptual perspective, the outsourcing process can be defined as the activity that is transferred in order to be fulfilled by another company. Strategically speaking, outsourcing should be considered the long term activity meant to ensure both the survival and, more important, the prosperity of the company. On short term, outsourcing is a method (most of the times unloyal to employees) applied in order to diminish employment, the cost of salaries or to eliminate the conditions and rights acquired by employees through collective negotiations.

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Consequently, in terms of outsourcing, the innovation lies in the scale recorded in the area of all types of services, particularly among business and computerized domains. Service sector was long considered impenetrable by international competition. However, due to the improvements achieved by the communications technology and especially the Internet, services can cross political boundaries through specific connections and networks, thereby achieving benefits embodied in accessing cheaper labor force, but higher qualified. (CNP, p.1).

Although outsourcing can be expected to beneficial on the long term, there may be a series of adjustment costs (Ferrusi, 2008, p. 4) in the form of lost jobs, a process that is especially noticeable at the microeconomic level, since even in the developed countries the services outsourcing process is at the beginning.

2. Specific Issues Related to Business Service Outsourcing

Although outsourcing is a common practice in the business environment, a survey (Stancu, 2008) conducted by KPMG International[1] reveals that 42% of outsourcing contracts are not based on a formal framework meant to assess the strategic benefits obtained by the enterprise. The study identifies a number of other issues, caused by the outsourcing agreements that the businesses face. Among those issues are identified the following: uncertainty regarding the costs involved in the process of selecting a provider for the outsourced services, long time required for completion the tendering phase (KMPG recommended that this phase should not exceed 6 months), the human factor (60%) and not technology (12%) is the main problem encountered in the development of the outsourcing process. Even though companies covered by the survey consider outsourcing as a process with real benefits to their business, they must be able to accurately demonstrate the measure of the obtained profits as decisions based on intuition or some unsubstantiated allegations, are not the appropriate means of action.

A study of the level of outsourcing services from our country, the analysis of Romania's balance of payments from the 2005, reveals the following information: Informatics services recorded a deficit of 14 million Euros, which represents an outsourcing amounting to 149 million euro and an internalization of 163 million Euros. By analyzing the evolution of legal services, financial & accounting and management consulting can be concluded that the internalization is higher than the outsourcing, since they have achieved revenues of 117 million Euros worth in the terms of making payments of 222 million Euros. From this brief analysis conducted in late 2005 we notice that, even since then, Romania can be considered

[1] KPMG is a network of professional firms providing audit, tax and business consulting. The network activates in 148 countries and has more than 113,000 employees in the member firms around the world. In Romania and Moldova KPMG operates in several offices located in Bucharest, Timisoara and Chisinau and, starting with October 2008 and opened an office in Iasi.

an attractive country for outsourcing, both in services and industrial sectors (CNP, p.5).

Concerning the international services outsourcing, during the year of 2005, they accounted for only 0.1% of GDP in Romania. The analysis took into the account the IT services area, while legal services, financial, accounting and management consultancy recorded and internalization amounted to 101 million Euros, approximately 0.2% of GDP.

Table 1 Classification of business process outsourcing

Business process outsourced	Types of services associated to outsourced process	Service suppliers	
		Finance	Accounting
Finance and accounting	Internal Audit Management of expenses Receivables and payables analysis Billing Financial Reporting Management services taxes Tax Reporting Budgeting General Accounting Treasury	Accenture Capgemini CGI CSC EDS HCL Tech iGate Patni Satyam Wipro	BDO Seidman BKD CBIZ Convergys CroweChizek Delloite & Touche Ernst & Young Intelenet Global IQ Backoffice KPMG Mellon Financial Outsource Partners International PriceWaterhouseCoopers Grant Thornton RSM McGladrey

Source: (Brown-Wilson Group, 2007); (Mattoo, 2004, p.4)

Thus, in order to improve the activity of outsourcing the financial services, both companies (beneficiaries) and suppliers (outsourcing service providers) should apply the following rules (Păvăloaia, 2008):

- to define the indicators necessary to assess the contribution of outsourcing to achieve economic goals;
- not ignore the human factor issues;
- to have a common vision (customer-supplier) into the the definition of success;
- the selection processes used should be flexible;
- there should be a strong and transparent business relationship between supplier and recipient;
- to use auditing standards;
- outsourcing should be based on best international practices.

The literature contains numerous references to the classification of business process outsourcing. They are based on the type of economic process for outsourcing. In Table 1 are presented only specific types of services related to finance and accounting processes as well as firms that are located into the top providers of such services.

In Romania, too during the recent years it has been established a number of firms, especially small, aiming to provide services in financial accounting. They activates alongside with world renowned companies which have entered the market from our country one by one. The firms are Deloitte & Touche, KPMG, Ernst & Young and PriceWaterhouseCoopers, also known as the group of four, title granted after ArthurAndersen firm collapse. Thus, strictly linked to the economic environment, in Table 2 are presented as an example the supply of outsourcing services firm Deloitte Romania and structure.

Table 2 The offer and structure of the outsourcing services from Deloitte Romania firm

Type of outsourced service	Accounting and financial services	Payroll and secretarial services	Tax Administration
Types of activities	Complete records, including reports and financial statements for management use.	Preparation of annual statements for income taxes withheld from wages.	Record of the Financial Administration for income tax, VAT and other taxes.
	Review of accounting records	Payroll Preparation	Preparation of tax returns
	The program of staff agreements	Payroll	-
	Other services: electronic banking, etc.	-	-

Source: Adaptation after (Delloite[1], 2008)

[1] Deloitte delivers services to the clients from public and private sectors into the following professional areas - audit, tax, tax advisory, financial advisory services - serving many industries. Through its global network of member firms in 140 countries, Deloitte brings customers local expertise and international resources to help them succeed wherever they operate.

For the year of 2009, the Black Book of Outsourcing study (Brown-Wilson, 2008, p. 15) predicts that a number of functional areas such as finance, accounting and IT infrastructure, will continue their upward trend in increasing the share of types of the outsourced services. Thus, financial accounting services will increase by 75.2% compared to 2008, being located on the 2nd place (due to their rate of growth) after acquiring services, brokerage, sales management and payments whose growth is estimated at 83.4%. The knowledge society has triggered activity centered on knowledge process outsourcing, called KPO - Knowledge Process Outsourcing. As a direct result, interpretations, diagnostic, market research, data analysis etc. are the work of specialists whose advance preparation is very laborious. As part of KPO, the level of qualification of human resources used and the degree of involvement of the beneficiary of these services will be much higher, since between the two partners must exist a close communication, and the customer will be responsible for validating or providing guidance to customer into its activity.

Market surveys show that the main processes or activities subject to outsourcing are: manufacturing (53%), logistics (51%), HR (35%), sales and marketing (33%), research and development (32%) and finance and accounting (24%).

Although outsourcing finance and accounting service are located on the last places we ilustrate that a strong tendency to increase their share into the outsourced services is expected. On the other hand, the reason for not widely outsourcing the accounting functions in Romania, can be explained by the fact that the information in this area are considered crucial because the company supports the foundation of strategic decisions and, as a result, managers are reluctant to outsourcing.

3. Accounting and Economic & Financial Analysis Services Outsourcing

In order to establish the financial and accounting activities that are suitable for outsourcing is necessary to make a careful analysis that takes into account important criteria regarding the importance of the data and processed information. Thus, we can distinguish a number of situations that correspond to the following three classifications:

(1) financial and accounting activities that are most often outsourced (known into literature (Sako, 2006, p. 507) as special transactional processes),

(2) financial and accounting activities that are good candidates for outsourcing (outsourcing is suitable but there are some concerns about the loss of the internal competences due to outsourcing) and

(3) the strategic financial and accounting activities, that normally are not outsourced.

While specific financial accounting transactional processes are easily outsourced as the applicable solutions are standardized, the activities involving a high level of expertise, as internal audit, budgeting, taxes, economic and financial analysis, are more difficult to outsource. They involve a high degree of knowledge of enterprise and internal and /or external factors that may affect the decisions and objectives fulfillment. If the latter activities will be outsourced, the processes will be called transformational processes because, in order to conduct them, the provider must perform a variety of customizations. Thus, in Figure 1 are graphically presented, the financial and accounting activities according to their degree of outsourcing.

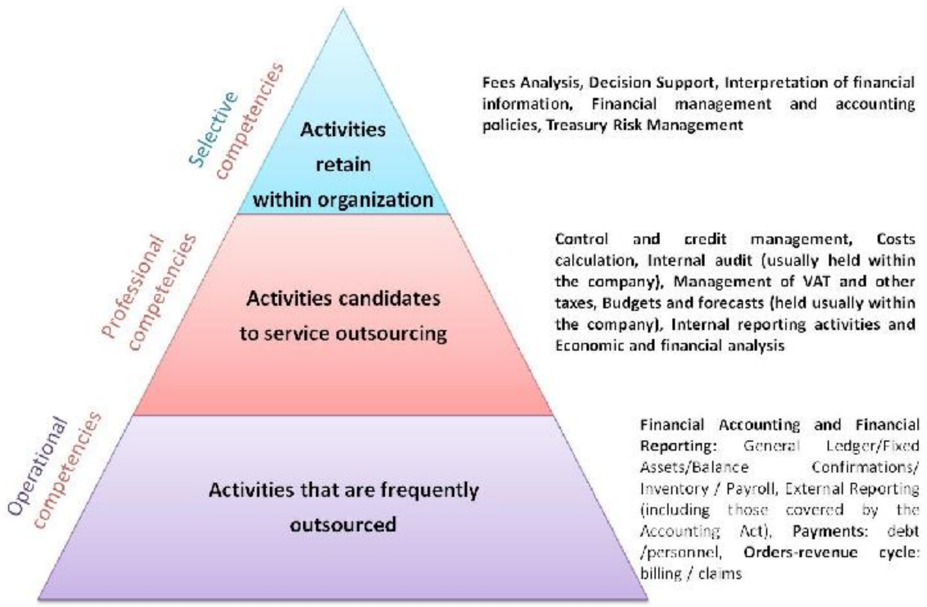

Figure 1 Classification of the financial and accounting activities according to the degree of outsourcing

Source: Adaptation after: (Rehmann Goup, 2007); (Morgan Chamber, 2007)

The taxonomy of the outsourced activities greatly influences the management manner of company providing accounting services. Thus, the main activity can be structured in accounting, auditing and other services, such as valuation services, research, restructuring, financial analysis etc. Latest services refer to more complex activities that require high-level skills.

At the start of start outsourcing services towards a customer, it can be carried out routine accounting activities such as information processing accounts and primary records, and later may move forward to providing of value added services such as diagnosis and economic and financial analysis that helps the accounting officer or chief financial officer into the specific decision-making processes (www.outsourcing-journal.com).

3.1 Outsourcing the Accounting Service

Accounting firms in Romania are organized in double circuits, namely financial accounting (also known as general accounting) and management accounting (also called management accounting or analytical) which is not normalized, being applied according to the needs and particularities of the business.

In Romania, the Accounting Act[1] had established by Article 10 that"the responsibility for organization and management accounting is the administrator, officer or other person who is liable for the management of that unit". Specific accounting tasks can be carried out into two variants (Horomnea, 2007): throughout their functional departments or through agreements regarding the supply of accounting services. In the first case, firms held finance and accounting department under the leadership of chief financial officer, chief accounting officer or another person empowered to perform these functions. In the second case, the accounting can be performed on a contractual basis for the provision of services of accounting, done with individuals (accountant, chartered accountant) or legal persons authorized members of the Body of Expert and Licensed Accountants from the Romania (CECCAR). In this situation, changes to accounting by the enactment of Law no. 259/2007 refer to the art. 10 paragraph 4 of that responsibility lies with the organization and management accounting service provider, according to the contractual provisions and applicable laws.

The information presented above helps us detach from the Romania Accounting Act that the law allows any enterprise, that belongs to either public or private sectors, to outsource the entire accounting functions or only certain accounting work to a third party, with only one condition: that the supplier of these services is an authorized member CECCAR.

Standardization of financial accounting's work led to the outsourcing with greater ease of this branch of accounting. The flexibility of the organization as well as the specific features that characterize the information in the course of managerial accounting industry, makes managerial accounting more difficult to be outsourced. We believe that outsourcing accounting services leads to an increased fairness and

[1] ***Accounting Law 82/1991, republished in the Official Gazette of Romania, Part I, No. 48 of 14.01.2005, amended by Law No. 259 of 19.07.2007 published in Official Gazette of Romania, Part I, Nr. 506 of 27/07/2007, republished in the Official Gazette, Part I no. 454 of 06.18.2008.

legality of business transactions reflected within the documents from both the beneficiary and the customer.

The Romanian literature (Dobrea, 2009) presents the following three directions regarding the outsourcing of accounting service:

1. Complete transfer to a specialized and authorized service provider, organized into company that have sufficient resources to manage large portfolios of clients whose activities came across various fields;

2. Hire of professional assistance and coordination in accounting, which means that the financial & accounting department of the company is directly and actively connected with one or more consultants of the outsourcer, for the purpose of achieving significant activity optimizations;

3. Active counseling (component of internal audit) or organized counseling desired to cover those components that are considered insufficiently addressed;

Strictly related to the above three directions, the experience has shown that by outsourcing the most cost reduction is not acquired as the difference between wages and professional rates of experts, but in financial and taxation costs optimization.

Therefore, by outsourcing its accounting services, the company, through its employees, will fully concentrate its resources and creative force for the purposes of carrying out those activities in which the firm excels, while ensuring the overall management and flexibility of conditions that no longer feel the risks associated with outsourcing activities, as they are transferred (through the conditions from the agreement) to the supplier (Păvăloaia, 2009).

The outsourcing companies promotes their service by stating the following set of advantages that comes with an accounting outsourcing agreement:

- effectiveness of the working time of the company's employee;
- increase employee productivity;
- clearing up the employee downtime related to dealing with computer and network;
- professional services of financial consulting and audit;
- reducing the costs up to 60 % when outsourcing to a specialized and professional company;
- accessing the know-how acquired by the outsourcer's experts;
- relevant objectives and status reports on how to manage and solve particular accounting issues;
- permanent availability: 24hrs/day, 7 days/week.

There should not be overlooked the access to industry best practices and latest and more advanced technologies. Unlike enterprises, outsourcing providers have every incentive to keep up with the latest innovations in order to ensure their market competitiveness. Thus, if accounting is a back-office function for a firm, for the outsourced company is the main objective of activity and is, therefore, treated accordingly.

3.2. Outsourcing the Economic and Financial Analysis Service

In general, studies reveal that it is not possible for small and medium enterprises to hold employees which can develop industry-specific situations and analysis specific to the economic and financial analysis. Preparation of its specific synthetic documents, involves along with a time consuming activity, a rather important and a high level of expertise that should be paid accordingly. Furthermore, analysts must constantly participate to specialized training in order to be informed about the best and current practices in the field. The specific legislation should not be neglected. Rather, it should always be considered and therefore, employees must constantly update their knowledge on legislation. The experience gained by them is the expertise they own in this field and it is composed from the specific cases and general knowledge facts about the economic and financial area. Therefore, the above issues constitute some sources that could stand as the basis for calculating the personnel costs involved in the activities of economic and financial analysis.

In the light of the above information, outsourcing of financial services must take into account several criteria, among which in our opinion, the most important would be the size of the enterprise. Thus, SMEs must be treated differently than large companies. While the first category of companies is not motivated in holding their own employees for those somehow seasonal but highly complex activities, the last category must have at least one department or even a team of economic and financial analysis (Păvăloaia, 2010).

An outsourcing model is shown in Figure 2. It is obtained by combining the two models developed by the author Zhu (Zhu, etc., 2001, p.39, 373-378) and Lever (Lever, 1997, p.20, 37-48).

Figure 2 An outsourcing process model

Source: Adaptation after (Marshall, ş.a., 2005, p. 348)

At the strategic level, the issues and circumstances that must be considered in the case of outsourcing the economic and financial analysis are (Păvăloaia 2008):

- establishing the competence over the firm that takes over the activities (degree of competence and expertise of employees), hence the quality of prepared statements;
- establishing confidence, loyalty of the external partner, the degree of trust toward the partner, that will ensure confidentiality on company accounts;
- the size of the company that takes over the activities, the ratio of customers and employees; could the partner complete the tasks in due time ?;
- the costs involved in outsourcing, it would be desirable to establish a fixed amount paid monthly or annually for the possibility of a proper budget allocations.

One way of resolving or, more secure, to mitigate the effects of the above problems would be to specify all the details in the contract that covers outsourcing services contract between the beneficiary and provider.

For many businesses, regardless of size, outsourcing could be an essential element in achieving its objectives, including those that relate to business profitability. Therefore, we mention some of the reasons why a company is forced to turn to the outsourcing of financial and economic analysis:

- diminish and control costs;
- restoring the company's vision and focus on its core competencies;
- using a high-level expertise and know-how;
- release the internal resources and focus on other aspects;
- a high-performance services contribute to the added value of the enterprise;
- outsourced business resources are not available within the enterprise.

The effects of outsourcing specific economic and financial analysis can be identified through the annual accounts, as they present the following aspects: an increase in working capital, because the entity no longer purchase computer equipment for specific records; a reduction in borrowing cycle operation, whereas the external benefits are paid at intervals greater than the wage debts; a reduction of value added, because the fees will take the place of wages and social expenditures.

Also, by working with an external provider, the company is exempt from responsibility for drawing up the synthesis documents specific to accounting and reporting, which is taken over by the provider under the law governing financial and accounting activity. Also, professional risk insurance (which every accounting firm is required to hold) guarantees compensation in case of errors.

Closely related to the outsourcing company's financial and economic analysis, in Table 3, is illustrated the projections presented by Black Book of Outsourcing (Brown-Wilson Group, 2008) on trends for 2009 budgets for outsourcing.

Table 3 Outsourced areas and the trend of budgetary allocation in 2009

The field intended for outsourcing	The trend of budget allocation
IT Infrastructure	63,4 %
Computerized applications	55,1 %
Accounting and financial processes	**21,8 %**
Knowledge processes	11,7 %
Mediation processes	11,3 %
Transactions and business processes	6,9 %
Call centers	0,7 %
Human resources	-2,4 %

4. Discussion and Conclusions

In conclusion, we point out that in Romania, the firms that provide financial analysis and accounting services, consulting and/or audit, are members of professional organizations such as CECCA.R. and/or C.A.F.R.[1] These bodies that governs the accounting profession and the manner of keeping the accounts in our country. Under these circumstances, the firms are sheltered under the umbrella of those bodies that ensure quality financial and accounting services to members through regular audits[2].

The main advantage that outsourcing brings to a company is cost diminishing. Thus, variable expenses consumed by financial-accounting turns into fixed costs, and this action allows avoiding the costs of seasonal activities, characterized by over-activity (overtime payment) and/or sub-activity periods (assumption downtime). Outsourcing leads to costs reduce and eliminates the costs of employee access to legal expertise and fiscal accounts in Romania. Thus, employees must participate in training courses on a regular basis. Such trainings can be quite expensive, and through outsourcing, their cost is passed on to the service provider. Due to outsourcing, the company no longer needs to keep up with technology and computer software, which brings a new set of economies, worthy of consideration.

In addition to these advantages, we point out that outsourcing the accounting function entails some risk. Firstly, the company could lose control of the essential functions that includes information regarding other core business functions, such as

[1] C.A.F.R. – The Chamber of Financial Auditors from Romania (Camera Auditorilor Financiari din România)

[2] Members of C.E.C.CA.R. are audited annually or once in 3 years.

commercial office, production, personnel. Secondly, confidentiality and integrity of financial accounting information is a strategic goal, which must thoroughly observe. Thirdly, a number of mandatory accounting justifying statements cannot be accessed quickly, as long as they are in the possession of the service provider. This deficiency could be removed by e-accounting, which would allow 24/7 access to company accounting and financial information. Finally, credibility, expertise and reputation of the service supplier must be thoroughly tested and checked before signing the agreement with the provider. This way can be prevented a number of drawbacks such as fraud, missing the deadline dates for the financial statements, over-invoicing, lack of professionalism, etc.

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