Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor

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THE REFORM OF THE PUBLIC SECTOR ACCOUNTING IN ROMANIA: PAST, PRESENT AND FUTURE

Introduction

In recent years, reform of the public sector has been a major focus of policy makers and other specialists. The major changes in the European Union have significant influences over the public sector, as well. Thus, an increasing number of governments and public entities are adopting the accrual basis of accounting. The reform of the Romanian public sector accounting sets out four objectives against which the appropriateness of accounting policies to its particular circumstances should be judged:

a. relevance;
b. reliability;
c. comparability;
d. understandability.

The reform of the public sector accounting is being undertaken as the primary goal of making government transactions more transparent. In this context, the *relevance* is the most important objective. Accounts are to provide information about financial performance and financial position which is useful for assessing the stewardship of management and for making economic decisions. Financial information is *reliable* if it reflects the substance of transactions and other events which have taken place, is free from bias and from material error, is complete and, under conditions of uncertainty, has been prudently prepared. Also, information in an entity's financial statements gains greatly in usefulness if it can be *compared* with similar information about the entity for some other period or point in time, and with similar information about other entities. Finally, information provided by accounts needs to be capable of being *understood* by users having a reasonable knowledge of the business of the public sector and its economic activities, as well as accounting and a willingness to study with reasonable diligence the information provided (IFAC-PSC, 2002).

The transition from the cash accounting to accrual-based accounting in Romania is a major project with significant consequences. There are changes in both structure and accounting practice in the public sector accounting. This paper presents the major reform program for the public sector accounting system implemented by the Romanian

Government. Thus, this paper highlights some of the key steps of transforming the public sector accounting in Romania.

The structure of this paper is as follows: Section 1 outlines the conceptual basis for public sector accounting in Romania in the past; Section 2 explains the transformation of the Romanian public sector accounting during 1990-2005; whilst Section 3 summarizes the results of the reform and the possibilities of modernization.

The new legislation adopted between 1990 and 2005 represents key steps in the process of reforming the public sector accounting in Romania. After the second war, Romania adopted the soviet accounting system following the advice from the soviet leaders. Thus, the entire economy had a strong transformation toward the centralized system with the major goal of reporting to the centralized decision makers. Starting with year 2006, the public entities, excepting the credit institutions, can prepare also a distinct set of financial statements in accordance with the International Financial Reporting Standards (IFRSs) for their own need for information for the users, other than those for the state authorities, in accordance with their option, and if they have the corresponding capacity for implementation.

1. Romanian Public Sector Accounting in the past

Romanian public sector accounting was based on regulations adopted in 1984, when Romania had a centralized economy and the only property was the state one. Thus, the chart of accounts was very simple, completely different from the European Directives and different from the International Accounting Standards. There were no concepts as relevance, reliability, comparability or understandability. The accounting system was available for a small group of persons, who could use the accounting procedures and the financial information was available for specific persons with important position in the central administration or government. The public had no access to the financial or any kind of information regarding the public budget.

The old Chart of Accounts for public institution has been adopted in 1984 and amended after 1990. The Ministry of Public Finance published a manual in December 1984. This manual contains a full Chart of Accounts and the instruction of implementation for each institution or government unit. No single unit of government will use all the funds, activities and accounts contained in the Chart of Accounts. Smaller units will use only a few, but when one is used, it will be for the same purpose by each unit using it.

After 1990 the Chart of Accounts for public entities was developed, based on the old structure. The old Chart of Accounts was reflecting the planning and centralized economy at the period 1980s, but in 2003 a lot on new accounts were set up according with regulation from the Ministry of Public Finance. Thus, it was a discrepancy between the continuing developing economy and the old Chart of Accounts, not flexible and limited.

Generally, an accounting system should be designed to ensure that the outputs that it produces satisfy the information needs of the end users of the information. In a centralized economy, the main users of company accounts are the Government, which uses the information for tax and statistical purposes. In a market economy, the user groups will be wider and will include the following:

- present and potential shareholders;
- investment analysts;
- management;
- tax authorities;
- employees;
- customers;
- suppliers;
- general public.

The bookkeeping of the public finances treasury was organized within the Ministry of Economy and Finance and its subordinate departments and it included:

- the operations related to the cash execution of the state budget, of the local budgets, of the state social insurance budget;
- the setting up and utilization of the extra-budgetary means and special destination funds;
- the administration of the domestic and external public debts as well as other financial operations on behalf of the central public administration bodies.

It is important to mention that Romania before 1990 had no public debts and this situation was achived with great sacrifice from the Romanian people. According to the law, the organization and management of the bookkeeping of the public finances treasury were carried out according to the regulations issued by the Ministry of Economy and Finance. The ministries, the departments and the other central public administration bodies whose managers have the quality of main credit ordering persons as well as the public institutions having legal personality and subordinated to them organize and manage the bookkeeping of the collected incomes and of the expense made according to the approved budget, of the extra-budgetary means and of the special destination funds.

The bookkeeping of the local budgets was organized and managed at the level of counties and of Bucharest City, of the municipalities, and districts of Bucharest, of the towns and villages according to the regulations issued by the Ministry of Economy and Finance in order to record the operations related to:

a) the collected incomes and payments within the execution of the local budgets and special destination funds set up according to the law;
b) the record of the transfers from the state budget and treasury fund set up according to the law.

Before 1990 in Romania every local administration unit had organized the accounting system without using double-entry; just simple ledgers for tax and statistical purposes.

The bookkeeping of the budget of the State social insurance and of the other autonomous social insurance bodies, as well as of their subordinated enterprises was organized and managed by each social insurance enterprise. The Ministry of Economy and Finance prepared the balance of the whole national economy every year. The balance of the whole national economy is submitted to the Government at the same time with the general yearly account for the execution of the state budget.

The weakness of the accounting system for Romanian public entities before 1990 were:

- Reduced number of specialists or persons with an accounting culture;
- No information tehnology or computer systems;
- Most of the Romanian public entities did not use the double entry;
- The old chart of accounts was not flexible and reliable for the modern economy.

In a centralized economy is imposible to develop an accounting system because also the resources were limited. In the last few decades the "IT initiatives have been an important part of public sector reforms for some time, but has been given a fresh impetus in the current government's modernization policies" (Lapsley *et al.*, 2003: 2).

2. The Transformation of the Romanian Public Sector Accounting during 1990-2005

Between 1990 and 2005, Romania has been characterized by significant transformational political and economic reforms. A new Constitution was adopted in December 1991, which set the groundwork for a democratic political system. Over the last few years increasing attention has been paid to the role of institutions, particularly legal systems, in the process of economic development. Very recently, Romania started public sector reforms in areas like education, healthcare, local government and public utilities.

Table 1 – The reform of the Public Sector Accounting –
Summary of Key Dates in the Reform Process

Key Dates	Reform legislation and regulation
1991	Accounting Law n. 82/1991
1997	Program for Accountancy Development in Romania with the support of the Department for International Development of the United Kingdom Government
1999	The Emergency Government Ordinance n. 75/1999 on the financial audit
July 11, 2002	The law of public finance n. 500/2002
August, 2003	The Government Ordinance n. 81/2003 on the reevaluation and amortization of the fixed assets from the public entities
January 12, 2005	Decision of Prime Minister to set up the Public Financial Management Reform Committee (PFMRC)
July 4, 2005	The Order of Ministry of Public Finance n. 946/2005 for Internal Control Code, comprising the internal management/control standards at the public entities
December 29, 2005	The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions
January 1, 2006	General accounts are to be prepared on the accrual-based accounting

After the first years of transition, Romanian economic and legal reforms have not however distinguished by their quality. Thus, Romania was trying to develop a new system consistent with the French origins for 12 years and the results were not so significant. After 1996 appear the possibility to become a member of European Union (EU) and a member of NATO. At the end of year 2002 Romania was invited to be a member of NATO, so the reform process was accelerated. The key elements of Romania's reform agenda are effective actions to cut off economic sources of corruption, measures on conflict of interest, financial disclosure, access to information and increased transparency, as well as judicial reform[1]. As January 1, 2007 Romania is member of the European Union.

The public finance was one of the most important priorities of the new government. Thus, the Law n.10/1991 on Public Finances was the initial attempt to rebuild the fiscal system in line with the independent status of economic agents and with the new role of State. The State and Social Security budgets are approved yearly by the Parliament. Taxes on profits, salaries and wages (complemented by the global income tax, which began in 2000) and the value-added tax are the main sources of public revenue. Only law can modify them. *Public finance was an area of permanent change during the last decade.* The frequent modifications of the existing legislation, the introduction of new taxes and the increasing number of regulations created a system difficult to administer and prone to abuses. Hence, it is not surprising that it is constantly mentioned as among the first obstacles to business in all surveys. Also, in the second part of year 2002 a new law on public finances was adopted concerning public funds, internal control and auditing. The implementation of the new legislation[2] started from January 1, 2003.

The transition to the accrual-based accounting is a long and complex project. However, we could notice some improvements in the last few years. The new legislation (see Tables 1 and 2) adopted the concept of *program budgeting*[3]. Program budgeting is primarily a system associated with corporate management which identifies alternative policies, presents the implications of their adoption and provides for the efficient control of those policies chosen[4].

According to some experts' opinion (e.g. Jones and Pendlebury, 2000), the program structure provides the framework for linking the resource and activities to objectives. The relationship between ends and means has to be established and it may often be the case that the resources required to undertake a particular program are scattered over several departments.

In Romania the program budget was adopted for the first time in 2002. The new law of public finance issued by the Romanian Parliament in 2002 established the requirements for the program budget, based on the experience from the western European countries. According to the Law of Public Finance n. 500/2002, the program budget must to have a title, a presentation and a program structure. The main purpose of the program budget is to increase the accountability and the controlling system from the Ministry of Public Finance. Main credit holder will have the initiative to

[1] Romania's Reform Agenda - Ministry of Foreign Affairs, April 2002, Bucharest.

[2] The law of public finance n. 500/2002, OG: 2002. *Note: OG:2002 means Official Gazette year 2002.*

[3] The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions, OG: 2005.

[4] The Chartered Institute of Public Finance and Accountancy (UK), *Financial Information Service*, multi-volumed, regulary updated manual.

Table 2 – The reform of the Public Sector Accounting –
The objectives of the main key steps

Reform legislation and regulation	**Objectives**
Accounting Law n. 82/1991	The Accounting law and the accounting regulations issued in this area include a series of specific requirements for accountability.
Program for Accountancy Development in Romania with the support of the Department for International Development of the United Kingdom Government	The objective of this project is to increase the legal and administrative capacity of the Ministry of Public Finance (MoPF) in the elaboration and implementation of governmental budget policies by upgrading and modernizing the Romanian public accounting system in accordance with the standards currently in force in the European Union.
The Emergency Government Ordinance n. 75/1999 on the financial audit	Adopting the financial audit, public entities could have the examination of the financial statements and the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented.
The law of public finance n. 500/2002	This law adopted new and modern concepts regarding the public finance and the budgetary classification.
The Government Ordinance n. 81/2003 on the reevaluation and amortization of the fixed assets from the public entities	Before 2003 in Romania the public entities did not use the amortization of the fixed assets. According to this Ordinance, the public managers have to evaluate and calculate depreciation for all the assets, as premises for management accounting.
Decision of Prime Minister to set up the Public Financial Management Reform Committee (PFMRC)	The task of the Committee was to draw up and supervise the implementation of a Strategic Development Plan (SDP) for Public Financial Management Reform covering the period 2005-2007.
The Order of Ministry of Public Finance n. 946/2005 for Internal Control Code, comprising the internal management/control standards at the public entities	According to this new law, all the managers of the public entities will dispose – taking into account the particularities of the legal, organizational, personnel, financing and other specific elements framework, as well as the standards and the necessary measures for the elaboration and/or development of the managerial control systems of each organization, including the procedures, formalized on activities.
The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions	Starting January 1, 2006 Romanian public entities have a new and modern chart of accounts and accrual-based accounting.

produce a program structure, but this is only the first step. The Ministry of Public Finance is responsible for providing the information for adopting decision.

Program analysis is concern with the analysis of the costs and benefits of each program, so the decision could be made. There are many situations when the decision makers need to know the effects that proposed expenditure might be expected to have on objectives.

The main credit holders are responsible to provide the financial statements and other reports in order to analyze the objectives, the estimated results and the actual ones. This means that the output of each program must be measured in a particular manner that covers the entire beneficial impact of the program. The relationship between costs and benefits can be established and used as a basis for making choices between alternative programs.

The advantages can be summarized as follows:

- It provides information on the objectives of the organization;
- It cuts across conventional lines of responsibility and departmental structures by drawing together the activities that are directed towards a particular object;
- It exposes programs that are overlapping or contradictory in terms of achieving objectives;
- It concentrates on long-term effects;
- It provides information on the impact that existing and alternative programs will have on objectives, and the associated program costs;
- It enables resource allocation choice to be made on the basis of benefit/cost relationship;
- It increases the accountability and the control from the decision makers.

2.1. The Budget and its Coverage in Romania

One element of the reform of public sector in Romania is related to the news concepts of National Public Budget and General Consolidated Budget. Thus, according to the Constitution, the National Public Budget shall comprise the State budget, the State social security budget and the local budgets of communes, towns and counties. But, the General Consolidated Budget includes expenditures of central and local administration and of the special funds. The Government of Romania and the Parliament of Romania both play major roles in developing the budget.

The financial year in Romania begins on January 1 and ends on December 31. All the budgets in Romania after 1990 where approved with deficit. It is important to mention that before 1990 all the budgets adopted in Romania had no deficit. The Budget deficit is the amount by which budget expenditures exceed budget revenues during a budget year. Every year, the General Consolidated Budget becomes more and more complex because there are more and more expenditures and revenues. Also, new public institutions are developing and all the public system is more complex.

The annual budgetary laws can be altered during the budgetary exercise by rectification laws, elaborated no latter than November 30. The same procedures shall apply to the rectification laws as to the initial annual budgetary laws, except for the terms of the budgetary calendar.

The formulation and approval of the annual budget is described according to Public Finance Law n. 500/2002. At the same time that the next year's budget is being formulated, the monitoring of current year budget execution takes place. Analysis and assessment of budget execution are important factors in developing budgets for the next year, since they permit tracking major trends in current year revenues and expenditures. Hence, throughout the budget year, as the approved budget is executed, execution reports on revenues and expenditures are prepared on a monthly, quarterly, and annual basis.

2.2. The implementation of the new Chart of Accounts ("Plan de Conturi General--PCG") and the new accounting principles

The Accounting Law N. 81/1991 established basic accounting principles and the chart of accounts. For the year 2003 the Accounting Law is to be applied in conjunction with harmonization framework of accounting regulations with the European Directive and International Public Sector Accounting Standards (IPSASs) and also with IAS Framework issued by International Accounting Standards Board (IASB).

The PCG is Romanian's general chart of accounts. Even though the PCG has had different versions in the last years, it has preserved its original structure adopted from the French accounting system. According to the accounting regulation, it contains a numbered list of accounts, which are divided into eight classes[5]:

- Class 1: share capital
- Class 2: fixed assets
- Class 3: stocks
- Class 4: third party accounts
- Class 5: cash and other financial accounts
- Class 6: expenses by nature
- Class 7: revenue by nature
- Class 8: special accounts

2.2.1. Characteristics of Romanian Chart of Accounts for public entities

The Romanian PCG for public sector accounting presents some specific elements as follows:

1. These eight classes of accounts are different than the original French chart, because the PCG in France is also adaptable for a variety of industries in all sectors of the economy, whether public or private. In Romania the public sector has a different accounting system.
2. The chart of accounts is structured in such a way that the emphasis is placed on the analysis of costs not by their function or purpose but by their nature. The PCG contains no framework for cost accounts.

[5] The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions, OG:2005

3. The PCG differentiates the needs of financial accounting and management accounting. For example, the financial accounting section contains the first eight classes of accounts and records the expenses without calculating the costs of goods and services. The management accounting could adapt and calculate the costs in a way they consider useful for their own analysis.
4. The PCG has been successful after the previous one. It is more accurate and adapted to the modern economy. In addition, the tax authorities require that all public entities follow the PCG when filing their accounts for tax purposes.

2.2.2. The Accounting Principles

An important element of the reform was the modernization of public sector according to the modern accounting principles:

- Going concern
- Consistency
- Prudence
- Accrual-based accounting
- Matching
- Valuation of asset and liability items
- Intangibility
- Set-off
- Substance over form
- Materiality

Going Concern

It is assumed that the ownership unit normally continues its operation in the foreseeable future without entering liquidation or significantly reducing its activity. When the administrators are aware of material uncertainties related to events or conditions which may cast significant doubt upon the company's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered to be a going concern.

Consistency

It leads to the continuity in the application of the rules and regulations regarding the assessment, accounting and presentation of the ownership elements and of the results, thus ensuring the time comparability of the accounting information. The changes in accounting policies are permitted only if the law or an accounting standard requires them, or if they have as results more relevant or credible information concerning company‘s activities. It is very important to mention in the explanatory notes any changes of the accounting policies, in order to enable the users to appreciate if the new accounting policy is adequate and to evaluate the effects of the changes on the reported performance of the period and the real trend of company‘s performance.

Prudence

The amount of any item shall be determined on a prudent basis, in particular: (a) only profits recognized at the balance sheet date shall be included in the profit and loss account (b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the financial statements relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the administrators (c) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit.

Matching

All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

Valuation of assets and liability items

In determining the aggregate amount of any item the amount of an individual asset or liability that falls to be taken into account shall be determined separately.

Intangibility

The opening balance sheet of a financial year must correspond to the previous financial year closing balance sheet.

Set-off

Amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa, except for the setting off between assets and liabilities admitted by the International Accounting Standards.

Substance over form

The information presented in the financial statements should reflect the economic substance of events and transactions and not merely the legal form.

Materiality

Each material item should be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.

For the items with an unsure value and which have to be included in the financial statements, should be made the best accounting estimates. Sometimes, in this respect, it is necessary to review their values in order to reflect the events subsequent to the balance sheet date, changes in circumstances or finding new information, whenever those values are material. The effects of such changes shall be included in the same balance sheet item and profit and loss account, respectively, with the initial accounting estimate. The events subsequent to the balance sheet date may offer further information concerning the estimates made by the management at the balance sheet date. If that information would have been known at the balance sheet date, the management could have done better estimates. Therefore, if the financial statements are not approved yet, they have to be adjusted to reflect the extra information.

3. The results of the reform and the possibilities of modernization

The weakness of the accounting system for Romanian public entities between 1990-2005 were:

- Increasing number of legislation and regulation in the public sector accounting;
- Poor comunication and informatic systems;

- Deficit of accountants in public sector area, especially in the rural area (towns and villages);
- Difficulties in adopting the new public finance concepts and accounting principles.

Despite all the difficulties the implementation of the reform has been a great succes and the modernization of the public sector accounting is a necessity.

The results of the accounting reform in Romania opened new possibilities for medium-term budget-fiscal policy:

- Revenue policy will continue the disinflation process and will implement the commitment made by Romania within the EU accession process by harmonizing laws with EU laws;
- Budget expenditures will be justified and adjusted to the levels of non-inflationary revenues realized;
- Fiscal transparency will be increased by gradually decreasing financial transactions outside the budget and eliminating special purpose revenues currently included in the budget;
- New budget approaches for developing program and sector policies based on objectives, performance indicators, and results will make the allocation and the use of public funds more effective; and
- Maintaining control of the general consolidated budget deficit at about 2.65% of GDP.

3.1. Analyzing the Weakness of the Accounting System for public entities

Since 1991 the Romanian system of public finance has been substantially modified. However, the new system still faces various deficiencies:

- prior to the public administration reform, there was no comprehensive management information system and no monitoring system, either for revenues or for expenditures;
- accounting standards and the classification of accounts were insufficient and there was a lack of information exchange between the different levels within the system of public finance;
- forecasting methods for the budget and treasury balances were virtually non-existent;
- proposed reform measures could not be validated due to the lack of appropriate model units.

For these reasons was created a new department in the Ministry of Public Finance: Directorate General of Public Accounting and Treasury. This department is responsible to implement a program for economic development- public administration development and reform.

This program aimed at a considerable improvement of the monitoring of budget implementation for receipts as well as for expenditure and a better classification of operations in the accounts of the treasury. Internal administrative procedures within the system of public finance were to be streamlined in order to achieve greater efficiency and existing forecasting methods were to be improved. Administrative procedures between the different levels of the treasury system were to be standardized and two regions to be computerized in order to serve as models for the whole of Romania.

At the beginning of 2003 Romania was developing a new system of public sector accounting, mixed cash accounting and accrual accounting. From the beginning of 2005 a group of public entities implemented the accrual based accounting and from 2006 all the public sector in Romania will follow the same system.

More generally, all non-pure cash accounting system pose problems when two sets of payments are made in parallel: one from the budget itself, and the other from the liability accounts or the suspense accounts that contain accrued expenditures of the previous year not yet paid. A number of countries with non-cash accounting systems do not disclose their payments in a transparent and comprehensive manner.

3.2. Reforming the Romanian Accounting System for European Integration

Reforming the accounting system for European integration one objective became crucial: comparability. All the European countries must adopt the European Directives and in the near future the International Public Sector Accounting Standards (IPSASs) on the accrual basis of accounting. Whatever the basis of accounting (cash-accounting or accrual accounting), the following information is needed at each stage of expenditure cycle (Allen and Tommasi, 2001):

- Confirmation of the legal basis for spending;
- Adequate recording of appropriations, revisions in appropriations, transfers between appropriations and apportionment is a prerequisite for good financial management. In countries with non-automated budget management system, it is sometimes difficult to know exactly which budget is being implemented, because decisions concerning allocations and reallocations of appropriations are contained in various circulars and are not gathered into a single document. The budget implementation plan should be updated regularly to take into account decisions concerning appropriations;
- Accounting for commitments, including multi-year commitments is essential for keeping budget implementation under control. Such information provides the basis for budget revisions. Decisions to increase or decrease appropriations and the preparation of cash plans must take into account commitments already made. For internal management, spending agencies need to follow up accurately orders made and the contracts that have been awarded;
- Accounting for expenditures at the verification stage is important to program and agency management. It gives valuable information for assessing costs, although these data need to be combined whit information on depreciation, inventories, etc. Expenditures at the verification stage show how far program and project implementation has progressed. Recording expenditures is also required for managing payables and contracts, and assessing liabilities arising from budget execution (arrears);
- Transparency requires reporting all payments over the accounting period and the fiscal year in accordance with the expenditure classification system, including payments related to expenditures made in a previous period.

Transactions that are to be recorded must be clearly defined in the financial regulations. Sound budgetary accounting requires information to record transactions between:

- budgetary accounts, namely, budgetary resource accounts;
- commitments;
- expenditures at the verification stage;
- and payment accounts.

Obviously, double-entry bookkeeping system is required from the stage at which the expenditure is recognized (verification in the accrual basis of accounting). In most countries, commitments are registered (if at all) in single entry books, like in Romanian regional units. However, including information on commitments and appropriations in a double-entry bookkeeping system has the advantage of ensuring consistency of movements between budgetary accounts (particularly when budget execution is not fully computerized).

The next priority for the Romanian government is to adopt International Public Sector Accounting Standards (IPSASs) and to pay attention to the performance measurement. There has been a substantial training program which started in 2002 with courses in the MoPF Public Finance School, the National Institute for Administration (covering Central Government) and eight regional units. There is a twining project with PHARE funding named: "*Improve the organization and performance of public accounting system*" between Romanian MoPF, Italian Ministry of Economy and Finance, and French Ministry of Economy and Finance. The main objectives envisage the transfer to accrual accounting to analyze the costs of approved programs and to create a domestic reimbursement system of the State Treasury. The project has also covered familiarization with IPSASs and presentations on IPSAS 1, IPSAS 16 and ISPAS 17; the rest have to be presented in the future. The next twinning program will cover Consolidated Financial Statements. Although considerable progress has been made, three basic problems persist[6]:

- Shortage of staff;
- Low salaries (these are obviously closely related);
- Lack of an integrated IT system.

By decision of January 12, 2005 the Prime Minister set up the Public Financial Management Reform Committee (PFMRC). The Committee is composed of representatives at State Secretary level of nine line ministries (LM) and of the Prime Minister's Office, the Secretariat General of Government and the National Agency of the Public Service. The task of the Committee was to draw up and supervise the implementation of a Strategic Development Plan (SDP) for Public Financial Management Reform covering the period 2005-2007. The central aim of the SDP is to focus attention on the key elements of Public Financial Management Reform, to assess what has already been implemented in terms of management and operational reform, to evaluate the contribution of previous, on-going and planned technical assistance, and to identify the operational objectives for the period 2005-2007 taking particular account of the requirements which will need to be met in the context of EU accession.

[6] www.mfinante.ro – Strategic Development Plan for public Financial Management Reform 2005-2007.

Finally, Romania should focus further efforts on pursuing the alignment of the national legislation with the “acquis communautaire”. On the medium term Romania should adopt the legislation regarding central bank independence, the prohibition of privileged access of public sector authorities to financial institution and the prohibition of direct financing of the public sector.

Conclusion

The accounting system in Romania is still changing. In the last seventeen years Romania switched from the old accounting system used before 1990 to the French one and after year 2000 to the European Directives and International Accounting Standards. The accounting reform is the result of transition from the communism context to the market economy. Recently, the Romanian economy is starting to function as a market economy. Romania has repeatedly tried and failed to obtain the same recognition from The European Union. Moreover, Romania has not been scheduled for the first wave of EU enlargement in 2004. But Romania had made significant progress of the nature to encourage investments and generate an increasing interest in the Romanian economy.

The reform is an ongoing in the Eastern European countries. So, the laws that presently exist maybe seen as transitional and therefore are subject to be improved. Some of the common features in the accounting reform are as follows:

- A distinction between accounting for user needs and accounting for taxation purposes;
- The release of accounting for internal purposes from statutory regulation;
- The retention of statutory regulation of accounting for taxation purpose;
- Recognition of the needs of the state for accounting information;
- The development of accounting and auditing professional.

The public sector accounting reform in Romania is characterized by difficulties like in any country from Eastern Europe, but for Romania the possibility to become a member of EU after 2000 accelerated this process. Nowadays, we could notice the benefits of reforming the public sector accounting in Romania, like relevance, reliability, comparability and understandability. The main objective of the reform of the public sector accounting was to make government transactions more transparent. The increasing number of the user groups for the financial statements determined the importance of transparency and understandability for financial information. In these days, the public sector accounting represents a complex and important issue.

As Romania expects, after the date of January 1, 2007, the post-adhesion structural funds, public sector accounting gains new capacity. Thus, a special focus shall be identified with regard to the way the post-adhesion funds are accessed and used, financing that shall beneficially influence the Romanian economy, from the point of view of the development of both the social environment and the business environment, in general.

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