MODERNIZATION OF THE PUBLIC ACCOUNTING SYSTEMS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES:

THE CASE OF ROMANIA

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ABSTRACT

The government of Romania is presently pursuing a wide-ranging public sector reform agenda, part of which will be the need to develop public financial systems to meet international and European best practice and comply with ESA 95 and GFS. This is part of the overall Pre-accession Agreement which will allow Romania to progress as a Candidate Country and achieve full membership of the European Union in 2007. This article carries out a study of recent developments in government accounting and, in particular the introduction of accruals accounting to replace cash accounting. It examines the application for EU membership as a motivation for change in the countries of central and eastern Europe and then details the process in Romania. The article then reviews theories of governmental accounting innovation in the light of the Romanian experience before drawing some conclusions.

INTRODUCTION

There has been little examination of the former soviet bloc countries as they attempt to make far-reaching transitions. Politically to western style democracy; economically to market economies and administratively from central control to liberalisation and decentralisation. This has also been a very rapid process. In around 15 years, 10 former Soviet satellites have gone from communism to the verge of entry to the EU. Simultaneously, there have been significant innovations in governmental accounting, which, again, have not attracted much academic attention.

RECENT DEVELOPMENTS IN GOVERNMENT ACCOUNTING

Until fairly recently governments have maintained accounting records, prepared and monitored budgets and reported on performance and financial results on a cash basis. That is, recognising income and expenditure flows as money was received or payments made, rather than when future economic benefits were created or obligations incurred.

However, in the last ten years there have increasingly been significant changes in the methods of financial reporting and budgeting in a large number of developed countries. The change began in New Zealand in the early 1990s and was introduced in the UK around 1995. In both cases, the innovations in government accounting were part of wider improvement in performance and fiscal management flowing from the change from the paradigm of public administration (an articulation of Weberian bureaucracy) to New Public Management and Neo-liberalism. In the UK the initiatives underpinned the government's Code of Fiscal Stability; incorporating the Golden Rule and the Sustainable Investment Rule and in New Zealand they complimented the increasing importance of managerialism.

The main elements of the changes are the move to accruals accounting as the basis for budgeting and financial reporting for the whole of government, and have brought benefits in terms of greater transparency and recognition of the full cost of government programmes (Pallot, 2001; Likierman, 2003).

Accruals accounting has spread to many countries for a number of reasons. New Public Management (NPM) has seen the importing of private sector management processes and techniques to the public sector, and this has encompassed financial management and performance reporting techniques. In times of retrenchment, managing on less money has required increased efficiency and value for money. More refined accounting techniques have been necessary to evidence greater fiduciary responsibility and accountability.

Greater public demands for transparency and accountability have led to increased expectations of more substantial and better quality government reporting in democracies and market economies (Chan and Ruben 1987). As other countries have made the transition from control economies to fledgling democratic market economies, they have sought or been encouraged to introduce the style of government accounting increasingly found in the developed countries. The nascent moves to a democratic regime with the separation of powers and the insertion of appropriate checks and balances in the activities of executive, legislature and judiciary has gone hand in hand with attempts greater fiscal accountability and transparency in government reporting.

The large donor bodies, such as IMF, World Bank and USAID and international organisations like the European Union (EU) and the Organisation for Economic Cooperation and Development (OECD) have encouraged the development and refinement of government accounting systems as a method of reducing corruption, and fraud. Often their conditionalities will require beneficiaries to demonstrate sound financial management and robust public accounting systems as a prelude to assistance. Similarly, Candidate Countries for accession to EU membership are expected to evidence sound financial management and accrual based government accounting systems as part of the accession negotiation process.

ACCRUALS ACCOUNTING

Many multilateral institutions are encouraging governments to introduce accruals accounting and are resourcing initiatives by the international accountancy profession to facilitate this. For example, the work of the Public Sector Committee of the International Federation of Accountants (IFAC) in the development of International Public Sector Accounting standards (IPSAS) has been funded since 1996 by the World Bank, the Asian Development Bank, the United Nations Development Programme and IMF. This funding is ongoing for the standard setting programme.

The IMF has recognised that the demand for, and use of resources by governments can be a significant determinant of the social and economic health of a country and that there is a clear link between accountability and fiscal transparency by governments and economic advancement:

"there is a clear consensus that good governance is of central importance to achieving macro-economic stability and high quality growth and fiscal transparency is a key aspect of good governance" (IMF2001).

This relationship is also acknowledged by academic commentators. Kaufmann (1999) argues for the strong causal relationship between good governance and better development outcomes, such as higher per capita incomes, lower infant mortality and higher literacy. Similarly, Camdessus (1998) concludes that:

"the Asian crisis has demonstrated in a very dramatic way how the lack of transparency. can feed market uncertainty and trigger large capital outflows that can, in turn, threaten macroeconomic stability. Conversely, progress towards greater transparency can radically alter the very terms of the public debate."

Accordingly, the preface to the second Government Financial Statistics Manual (GFS2001), issued by the IMF in May 2001, heralds a major advance in the standards for compilation and presentation of fiscal statistics and a worldwide trend towards greater accountability and transparency in government finances and disclosure. Of particular note is that the Manual introduces accruals accounting, balance sheets and complete coverage of the economic and financial activities of governments. It also requires the disclosure of asset valuations and the consumption of fixed assets (depreciation) at market values and is, therefore, a strong advocate of revaluation to current prices.

The OECD has also been a strong supporter of accruals accounting. Over half of its member countries have adopted accruals accounting to some degree (IFAC, 2002) and more are planning to do so.

For a long time, the OECD has been convinced of the accruals accounting over cash accounting and concluded ten years ago: "...while the advantages of cash are acknowledged in terms of assessing short term economic impact and compliance with spending limits, the ability of cash information to enable informed decisions on the stewardship and financial position is constrained because it excludes physical and financial assets and liabilities. Alone it provides no basis for judgements on performance in terms of economy and efficiency." (OECD, 1993).

In the last few years, the European Union (EU) has also recognised the benefits of accruals accounting. The process began in 2000 with the new financial Regulation proposed by the Prodi Commission to enhance the implementation and effectiveness of the European System of Accounts (ESA95). As a result there were a number of significant actions:

- A study was commissioned on the establishment and presentation of accounts from a team of high level experts on public accounting
- An action plan for modernization was drawn up in June 2001 and discussed and agreed with the Court of Auditors.
- An analysis was carried out of the experiences of a number of Member States (United kingdom, France, Sweden, Spain and Netherlands

In June 2002, a new Financial Regulation was adopted unanimously by the Council which requires the European commission (EC) to complete its shift to accruals accounting by 2005 and also to complete the implementation of the most up-to-date public sector accounting standards, taking into account all the constraints and necessary detailed changes. The proposal is for a single integrated accounting framework based on the latest International Public Sector Accounting Standards (IPSAS) and contains a three year action plan covering the following main areas:

- Devising the new accounting framework
- Integrating the accounting data
- Organising internal control of accounting data
- Training and awareness raising

At the same time, it is recognised that the present IT system and architecture will not support the new accounting requirements and an independent external study will be commissioned to examine the broad options of either a single standard package or a new integrated system.

These moves and new systems will have important implications for spending units and agencies set up by the EU to carry out some of its tasks where they are financed in full or in part by the EU budget and also to Member States or Candidate Countries as they account for the use of EU funds The EC envisages a situation where all these accounting elements are integrated into a single framework. This will need the adoption of the EU system or the detailed mapping of national government accounts to ESA95 (as the UK does just now, for example). It will certainly require the adoption of an accrual basis for the production of national governmental accounts.

GLOBAL CONVERGENCE

Chan(2003) observes that the developed English speaking countries have come together to promulgate a new type of governmental accounting which acknowledged the differences between commercial and public sector accounting.. On the other hand, continental Europe and, in particular France and Germany, had developed a uniform approach with common charts of accounts and codified accounting practices which were to be applied to both sectors. Other commentators have also noted this dichotomy between Anglo-Saxon and European approaches to national accounting. This difference was first observed in relation to the commercial sector (Thorell and Whittington 1994; Carsberg 1996; Alexander and Archer2003). Hopwood (1994) observed: “Wanting to have a more institutionalised manifestation of British commitment to a wider transatlantic and Commonwealth mode of accounting, with the cooperation of its partners in this primarily English language audit community, the IASC was established"

In time, the IASC became the IASB and a public sector committee emerged to consider the development of international accounting standards for the public sector (IPSAS). This was in recognition of the fact that accounting rules vary from country to country and it would be useful to seek as much harmonisation as possible. The advantages of having commonality in the rules governing the production of national financial statements and the consequent ability to improve the reliability of national accounting and economic statistics have been expressed by, inter alia, Luder (2000) and Jones (2000).

In the last two years, significant progress has been made in bridging the gap between the two forms of practice. This has been facilitated by the EU decision to accept and implement IPSAS and by a recognition of the limitations of heavily centralised and prescribed procedures. A good example is ex-ante financial control.

As a result of criticism by the European parliament of the financial management and financial regulations and practices of the European commission, the entire commission resigned en masse in March 1999. The Committee of Experts which was set up to investigate and report concluded that: "...the existence of a procedure whereby all transactions must receive the explicit prior approval of a separate financial control service has been a major factor in relieving Commission managers of a sense of personal responsibility for the operations they authorise while doing little or nothing to prevent serious irregularities"(EC1999).

The committee recommended that the present pre-audit service should be dispensed with and that internal audit and internal control should be decentralised to spending units as an integrated part of line management. An integral part of the Authorising Officers duties should be to satisfy himself that sound financial management and internal control exists within the spending unit. This represents a significant realignment with Anglo-Saxon practice and philosophy, especially when combined with the greater role and prominence given to State Audit Institutions (SAI).

COUNTRIES CENTRAL AND EASTERN EUROPE

The collapse of the Soviet block occurred with great speed and involved massive changes in the countries of central and east Europe (CEE) in a very short space of time. The period from 1989 to 1991 saw widespread upheaval including:

- Communists losing elections in Poland
- Hungary opens its borders
- Berlin Wall falls
- Communists lose elections in Hungary, East Germany, Czechoslovakia, Bulgaria and Romania
- East and West Germany unified
- Slovenia and Croatia declare independence

Subsequently, during the early 1990s CEE countries began the transition towards Western style democracy and market economies. At this time, also, the initial overtures began with regard to seeking membership of the European Union. This issue was considered by the European Council in June 1993 and it was decided that the countries in central and eastern Europe that so desire should be admitted to membership. Accession should take place as soon as a country was able to assume the rights and obligations of membership by satisfying the economic and political conditions.

In particular, membership would require:

- That the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities
- The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU
- The ability to take on the obligations membership, including adherence to the aims of political, economic and monetary union.

In response, 10 CEE countries applied for EU membership in the period between March 1994 and June 1996. There was clearly a two-way process to be instigated to deal with such multiple membership applications. On one hand, in July 1997, the EC issued a series of documents outlining the “Agenda 2000” programme to prepare the EU for the enlargement process. Also, in March 1998, the Commission approved Accession Partnerships with each of the 10 Candidate Countries aimed at guiding the applicants towards EU membership. The present state of the applications is detailed below:

COUNTRY	**ACCESSION DATE**
Hungary	May 2004
Poland	May 2004
Romania	May 2007
Slovakia	May 2004
Latvia	May 2004
Estonia	May 2004
Lithuania	May 2004
Bulgaria	May2007
Czech Republic	May2004
Slovenia	May2004

For those countries with an Accession date in May 2004, a Treaty of Accession was completed in March 2003 and for the two remaining applicants (Romania and Bulgaria) negotiations are ongoing aimed at an Accession period starting in May 2005 and culminating with entry to membership in 2007.

An important part of the pre-accession negotiations for each country has been the need to satisfy the EC that the system of public accounts is sufficiently robust to deliver reliable budget, taxation and outturn data which complies with ESA 95, and also, that the accounting, financial management and internal control systems are capable of safeguarding any EU funds during the pre-accession and membership phases (for example, around 11billion euros has been provided to CEE countries from the PHARE budget alone during the last 10 years). This has involved the transition to accruals accounting and the introduction of sound financial management and financial controls as detailed in EC Regulation 1605/2002.

The move to embrace accruals accounting has not received universal approval .It has been argued that, while the transition to accruals accounting is valid for developed countries, it may not necessarily be suitable for less developed or transitional economies. For example, SIGMA, an organisation set up to assist CEE countries prepare for EU membership, has observed that: "...both the effectiveness of the reforms in countries where they have been implemented and their suitability for transition economies remain the subject of debate among academics as well as practitioners" (SIGMA, 2001).

THE ROMANIAN CASE

The National Partnership Pre-accession Agreement (NPAA) for Romania was adopted in March 1998 and amended in December 1999 and February 2002. It sets out the EC opinion on Romania's application for membership, the priorities seen as conditionalities, the financial resources available to help Romania implement these priorities and the conditions which apply to this aid. Amongst other things, the priorities include: a national programme for adopting the Community acquis (laws), joint evaluation of medium term economic priorities, the pact against organised crime, national development plan and various sectoral programmes.

Limited progress in the short-term priorities in the fields of taxation, justice and home affairs has slowed down Romania's path to membership.

From the beginning, there has been concern about the Romanian governmental accounts in terms of accurately disclosing the collection of taxation (especially VAT) and the ability to articulate precisely the budget deficit. The level of pre-accession aid will be substantial and in the period from 2000 to 2006 will be around:

Millions / euros	
PHARE	1,900
SAPARD	1,890
ISPA	1,670

Although the Romanian authorities will assume responsibility for aid contracts and payments, the EC Financial Regulations require the commission to oversee contract award procedures and to approve any contract financed by PHARE. A significant part of the approval process by the EC Delegation is ensuring compliance with EC Financial Regulations and ensuring sound financial management is displayed within the Ministry of Public Finance (MPF) and governmental accounting practices and financial reporting.

MODERIZATION OF THE PUBLIC ACCOUNTING SYSTEM IN ROMANIA

● Accruals Accounting and Budgeting

The Ministry of Public Finance is undertaking some major financial reforms to comply with the NPAA requirements. One of the key areas of reform is the Public Accounting system.

The development of an accrual accounting system for the public sector is a priority for the Ministry of Public Finance. This will eventually provide relevant and reliable information regarding the execution of the State Budget, State Social Security Budget and Local Budgets and for computing the annual results.

The Government Decision no 455/2001 approving the Government Programme on 2001-2004 and also the Ordinance No. 61/2001 amending the Accounting Law 82/1991 stipulates that by beginning of 2003 the accrual accounting should become operational.

In this respect, the following aspects have been addressed, reviewed, agreed and implemented so far:

The General Norms regarding the organisation and the keeping of accounts for public institutions,

The Chart of Accounts for public institutions,

The Methodological Norms regarding the organisation and the keeping of budgetary commitments,

An appropriate reporting system of accounting information in accordance with European and International Standards. (ESA 95; GFS and IPSAS) This comprises:

- Operating Cost Statement
- Balance Sheet
- Cash flow statement
- Statement of Net Movement of Assets
- Notes to the Financial Statements and Accounting Policies.

The process for the development of the Public Accounting system will be sustained in the coming years by implementing the accrual accounting system and the component budgets in the consolidated general budget. MPF will facilitate the notification of its deficit, according to ESA 95, by improving the reporting system in terms of the allocation of the public resources to projects and programmes bases, taking into account performance criteria.

Moreover, the recent recommendations from the European Commission and International donor agencies for supporting this field with additional technical assistance have also to be considered. In particular, Twinning Light and Twinning assistance to improve the public accounts of 150,000 and 1,000,000 euros respectively has been provided for the period 2002-2005. Also, the World Bank is interested to provide technical assistance to support the implementation of MPF strategy for centralising IT activities.

● Financial Control

In the Accession Partnership for Romania (NPAA) one of the main priorities refers to the responsibilities regarding the management and the financial control of spending agencies (managerial accounting). In NPAA 2001, there is reference on the need for improving the approximation with ESA95 norms, and with the annual notification of the deficit and public debt.

The Position Paper on Chapter 11 "Economic and Monetary Union" also refers to Romania's commitment on introducing the accrual accounting system for public institutions, starting with 2003. MPF has previously benefited from a twinning arrangement (PHARE Programme 1999), with the Ministry of Economy, Finance and Industry of France on “The Improvement of the Treasury Management System”.

The project had, among other objectives, the improvement of the accounting nomenclature for central and local treasuries and the completion of the accounting centralisation in real time. The project was finalised in December 2001. The project aimed at improving the Treasury accounting and made recommendations on the accounting for public institutions, in respect of unifying the Charts of Accounts for public sector and approximating it with the provisions of ESA 95.

Since 1997, the Ministry of Public Finance(MPF) has implemented the Programme for Developing the Accounting and Audit System (financed by the Government of United Kingdom – Department for International Development), which focused on the private sector Romanian accounting system. A result of this programme has been the implementation and application of International Accounting Standards (IAS) in the Romanian private sector.

Based on the outputs of this Programme and with a view to establishing a national unitary accounting system, the accounting regulations and the Chart of Accounts for public institutions have been modernised in order to adapt them to a General Chart of Accounts (for private and public accounting system).

New laws on internal Audit and Preventative Financial Control were passed in 2002. Within the MPF both the Central Harmonising Unit for Internal Audit and the Directorate for Preventative Financial Control have been strengthened by the recruitment of additional staff and the decentralisation of preventative financial control functions has been piloted in 10 public institutions. A Code of Ethics for internal auditors was adopted in June 2002.

In terms of anti-corruption, provision exists for financial irregularities investigation panels and active cooperation has been established with OLAF (the EU anti-fraud body).

● **Acquis Communautaire**

The revision of the Public Accounting system is an important task of the Romanian authorities assumed in the negotiation process, in relation to the opening of Chapter 11 “Economic and Monetary Union” and Chapter 29 “Budgetary and Financial provisions” (transition to accrual based accounting and the approximation with ESA 95 methodology).

The Acquis of particular relevance for this project is:

Council Regulation No.1605/2002 of 25th June 2002 on the Financial Regulations applicable to the general budget of the European Communities;

Commission Regulation No.2342/2002 of 23 December 2002 laying down detailed rules for the implementation of No.1605/2002;

ESA 95 (Chapters 3,4,5,6 and 7)

● **Prevailing Environment**

As in most countries that are introducing accruals accounting Romania is undergoing rapid economic and institutional change and financial management reform is a necessary step in the ongoing redevelopment of the public sector. To this extent, there needs to be political support for financial management reform and the adoption of accrual accounting across all government entities.

The existence of relatively complete asset records makes identification and recognition of assets a much easier task. Asset accounting policies still have to be developed and applied and in particular the introduction of charging for depreciation is necessary. Additionally it is imperative that all fixed assets have a current value and not historical value this process has already begun with 13 pilot public institutions updating their fixed asset registers and calculating depreciation and other provisions and accruals with a view to providing accruals based 6 monthly figures in June 2003. Thereafter, the process will be rolled out to all public institutions.

● **Essential Preconditions**

There are a number of essential preconditions that need to be met if accrual accounting is to be successfully introduced in Romania and these preconditions are as much to do with the culture of the government as its technical accounting and IT capacity**.** Hepworth (2003) mentions several of these and it is useful to review some of them in the context of the Romanian situation.

Consultation and acceptance are indispensable to the introduction of accrual accounting for, without them, there will be neither understanding nor acceptance. Consultation and acceptance are as important within the political process as within the government ministries. To be successful, both politicians and the government ministries need to be prepared culturally for its introduction and be willing to recognise and accept the benefits that the changes will bring about and the costs of implementation in their widest sense. (Hepworth 2003)

The government in Romania should be prepared to accept that the standard setting process should either be completely independent of government or have such a significant degree of independence that it would be difficult for the government to ignore or overturn the decisions. In this context the parliamentary elections to be held next year will be of crucial significance.

An essential element in achieving independence in most countries is co-operation with an independent professional accountancy body in the development of accounting standards for the public sector (Hepworth 2003). The International Federation of Accountants (IFAC) is an organisation that represents accountants employed in public practice, business and industry, the public sector and education. They have developed a set of accrual based International Public Sector Accounting Standards (IPSAS) that are recognised world wide and recently the EU Commission agreed to use IPSAS as the framework for accounting principles. Without independent involvement the effect would be that the government would be seen as setting its own accounting standards and applying them in a manner that suited the political circumstances of the moment. The MPF have readily accepted compliance with IPSAS and the new Financial Statements have been drawn up in accordance with IPSAS 1and 2. They have also had the newly published Handbook of International Public Sector Accounting Standards (covering IPSAS 1to 20) translated into Romanian.

The new Public Finance Law improves national budget formulation and execution and also introduces a three-year programme-based framework for budgetary procedures. The 2002 state Budget introduced programme –based budgeting for the main spending units for the period 2003-2005.

There needs to exist a robust system of public scrutiny that also has the technical competence to challenge technical accounting decisions of the government. Key to this is the role of the government external auditor. A process of comprehensive annual independent audit of the accounts of each ministry is essential at the end of each financial year, with reports to the legislature and detailed scrutiny where appropriate. Successful implementation of accrual accounting depends heavily upon the understanding of and willingness to support the system by the government external auditor. The external auditor should report direct to the parliament and appropriate procedures should exist within the parliament to ensure that external audit reports are fully considered. A two year, EU financed, project in support of the Romanian Court of Accounts has been further extended .The project will aim to enhance the overall operational capacity of the Court and develop a comprehensive set of standards for external audit. Further staff training and technical assistance will also be provided.

This is further recognition and confirmation of this key aspect. A new law in February 2002 has clarified the Court of Accounts functions and enables it to operate more as a national external audit body in the accepted. sense.

● Some Technical Considerations

Sufficient technical capacity must exist within the MPF to understand and accept the disciplines imposed by accrual accounting. To some extent, MPF is dominated by economic and budgetary control concerns and therefore to introduce a technical accounting dimension, which may require highly complex interpretations, will require an ability and organisational capacity in the MPF to absorb new skills. In the short term, this will require training and technical assistance.

To be successfully implemented and operated, the reform requires not only an increase in the number of financial managers (who may be qualified accountants) employed by government but an acceptance of their contribution to the efficient and effective management of the public services.

There needs to be a willingness to meet the financial management education and training requirements of the public sector, either directly by the accountancy profession or through other institutions. In this respect the School of Public Finance and the National Institute of Public Administration could play an important role.

There is also a need for the training of managers in the spending units to use an accrual accounting system and to achieve the benefits from its operation. There are considerable differences between the information available to managers under cash accounting and the information available under accrual accounting. To make proper use of an accrual accounting system, managers need not only to understand the differences, but they also need to appreciate how they can use the accrual-based information to manage activity more efficiently and effectively. Therefore, an essential component of the introduction of an accrual-based system in Romania is a comprehensive management-training programme for line managers.

Accrual accounting can only be made to work if there is the technical IT capacity available. This IT capacity must be able to respond to the new and additional requirements that the introduction of accrual accounting will introduce and it will require the use of new systems which have not been used in cash accounting. Examples are the use of asset registers, a purchase order system and an accounts payable system. MPF has a well thought out 4-year strategy for the development of IT provision and there is a strong possibility of technical assistance support from the World Bank for its implementation.

THEORIES OF GOVENMENTAL ACCOUNTING INNOVATION

The Contingency Model (Luder, 1992, 1994) had emerged as the main framework for driving forward research into international governmental accounting. The model attempted to define the social political and administrative environment in a country and identify its impact on governmental accounting innovations. In light of ongoing research and modifications, the model was completely revised (Luder, 2000). The revised model, the Financial Management Reform Process Model (FRM Model) still contains contextual variables but also seeks to recognise the significance of the actors in the process by 3 clusters of behavioural variables and interrogate the process itself by 2 clusters of instrumental variables. Other models attempt to contextualise innovation as adaptation or a way of survival. Parsons' functional theory (Turner, 1978) would hold that the survival of a social action system depends on adaptation, goal attainment, integration and latency.

Krzyzanowski sets out an organisational theory which sees the state as a man-made entity designed to achieve a particular purpose. Some very useful work (Jaruga and Nowak, 1996) maps Parsons' functional theory and Krzyzanowski; s organisational theory and finds many similarities with classic Contingency Theory especially in its second or third generation (Jaruga and Nowak's model 2C or 3A). Much of this work was instrumental in Luder's revision of his original hypothesis, especially as a starting point for examining the process underlying the innovation of government accounting in a particular country.

The study of Romania in particular supports Luder's concept of contextual, behavioural and instrumental variables.

Stimuli

Financial Crisis:

Romania is an IMF debtor struggling to meet its repayments.

Administrative Reform:

A Candidate country for EU entry in 2007

Reform Drivers

Reform of public accounts is an important issue for both the government and opposition.

To some extent World Bank and EU analysts are drivers and catalysts for reforms on the back of technical assistance.

Political Reform Promoters

The Minister of Finance is a strong supporter and initiator as well as a vigorous promoter.

Institutional Arrangements

Romania is a civil law country where the rule of law is important.

State Structure

This is a unitary state with fairly new democratic institutions. However, the Executive is a strong proponent of public accounts reform. There is a centralised concentration of financial functions and decentralisation is being attempted at the same time as public accounts reform.

Qualifications of Finance Staff

Finance staff are technically competent and proficient in the traditional sense. The lack of skills in accountability and performance reporting are being addressed by pre-accession EU aid and World Bank technical assistance.

National Culture

As might be expected in a former Soviet satellite, the national culture is risk adverse and collectivist with fairly closed political and administrative processes.

Main Stakeholders

Outside of the Ministry of Public Finance, the main Stakeholders are the Supreme Audit Institution (Court of Auditors), government spending units and the government statistical office. There has been fairly wide dissemination of information and strategy and regular consultation. Thirteen pilots have been established in public institutions to monitor and facilitate the reform process and a 400 page guidance manual issued to all stakeholders. Regular training and awareness raising sessions are being held. Key stakeholders are being led and included in the reform process.

Implementation Strategy

The implementation strategy is focused on the requirements for EU entry and to a lesser extent IMF reporting needs. The pace and timescale of implementation are dictated by the need to meet EU entry criteria for a 2007 accession.

The normal barriers which mitigate against reform or slow down the process:- a civil law country; heavily centralised public institutions; risk adverse; collectivism; closed political and administrative processes- have all been recognised by the promoters of reform and are being addressed and managed. The drive for reform and the political support and rationale is stronger than any negative aspects which exist.

The study of Romania tends to suggest that the influence of major donors (World Bank in the case of Romania) is significant. However, the influence of the conditionalities laid down by the EU for accession to membership has been a major (perhaps the biggest) driver for innovation in the public accounts and financial management practices of Romania and in the other CEE countries. This is of particular significance since it represents the most widespread and rapid innovation process of governmental accounting seen so far. The implications of this aspect need to be considered in more detail in a major longitudinal study of the 10 countries involved. Once this has been achieved, the FRM model should be reviewed to incorporate the research findings.

CONCLUSIONS

Sound Financial Management

As well as ensuring the regulations and recording and transmission systems are compliant with ESA 95 and good International practice, it is equally important that the practices and processes in use evidence the fact that the principles of sound financial management are applied. This will require:

- A comprehensive and regularly updated set of Financial Regulations devised by the MPF and rolled out to the spending units. This activity needs to be monitored and managed by appropriately qualified and experienced staff.
- A strategy and timescale for the decentralisation of Internal Audit and ex ante financial control to spending units. This will need harmonisation and oversight by MPF and the production of detailed guidance, Users Manuals and Codes of Professional Standards. Again, there will be a need for suitably qualified and experienced staff both within MPF and the spending units.

Introduction of accruals accounting

The timescale for the introduction of accruals accounting is very ambitious (3 years): the process in the UK or New Zealand, for example, took around 6 years. Although a great deal of work and planning has already taken place, very much more needs to be done. To achieve such an implementation schedule, it will be necessary to gain and retain the commitment and participation of all staff involved. In particular, senior staff in spending Ministries must be convinced of the real benefits to them in terms of better quality financial information and greater flexibility for proactive management.

It is of vital importance that senior management are committed to the implementation process and are involved in the development and implementation process. They must also support the institutional change needed to deliver the required results within the very tight timeframe

Capacity building

The variety and complexity of the new tasks to be undertaken and the number of technical innovations suggest that there is a need for a considerable degree of institutional capacity building. In particular, an in depth Training Needs Assessment should be undertaken as soon as possible to assess the need for training both for MPF and spending unit staff, as well as appropriate ongoing technical assistance.
An urgent need is for awareness raising training for staff in the spending units to illustrate not only the technical changes required of them but also to demonstrate the positive advantages for them.

Management Information

To be successful the process should be two way. Not only will information flows be required from spending units to MPF but there should also be the provision of good quality information from MPF which will assist managers in spending units to take better informed management decisions and be held more closely accountable for the management of the resources under their control.

Contingency Theory and FRM Model

The process of governmental accounting innovation in Romania supports the Luder contingency theory, especially in its later generations and is also consistent with the revised Financial Management Reform Process Model However, an important additional consideration, which must be factored in, is the conditionalities attached to EU membership. These have not only dictated the content of the modernization process but also the speed and timeframe.

Further Research

One of the unfortunate casualties of the emergence of CEE countries from the soviet shadow coinciding with their applications for EU membership has been that some important research opportunities have been lost. For example:

- How the transition from totalitarian regimes to democracy would have altered governmental accounting
- How governmental accounting systems would have changed in the move to a market economy

It is now not possible to disaggregate the impact of EU driven moves to accruals accounting and decentralised financial management from what might have evolved over time. Even the timescale has been influenced by the need to prepare for accession in 2004 or 2007. However, the ten CEE countries do provide a useful cluster for comparative research into governmental accounting innovation and would also provide a useful comparator with other Candidate Countries who are seeking membership subject to the same conditionalities and pressures.

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ISSN	ISSN 1662-1387