

PERFORMANCE OF THE PUBLIC SECTOR BASED ON IPSAS

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ABSTRACT

The harmonization and modernization of the accounting system in the public sector are present both at international and European level. The main objectives of the IPSAS (International Standards on Public Accounting) referencing refer to supporting the process of accounting harmonization, increasing comparability, but also improving the transparency of public disclosure of information. Applying these standards is not obligatory, but only recommended. The adoption of IPSAS has many barriers or criticisms of the proximity to private sector standards, the interest shown by states in maintaining their control and sovereignty, the costs and training that this adoption would entail, as well as the IPSASB governance concerns. The proximity to private sector standards generates IPSAS incompleteness with respect to specific public sector needs such as taxation or social benefits.

KEY WORDS: *public sector, international, IPSAS, accounting harmonization, cash accounting, accrual accounting*

JEL: *M41, H83*

1. INTRODUCTION

The public sector is that part of the national economy whose economic or non-economic activities are under the control and coordination of the government. Public institutions aim at maximizing welfare, taking into account public interest, while private sector companies are aiming to maximize profits. Public sector accounting was initially based on cash and then passed to the transition to accrual accounting, which had significant effects on financial reporting and accountability. Accrual accounting is considered to be more complex and more effective. The emergence of globalization in accounting is the accounting harmonization, which approaches the different approaches and practices.

The international division of the accounting control system is a result of a complex process. Within this context, structures organized around different goals have evolved in different ways. The common fund is the rulebook for double-entry bookkeeping. Regulatory adjustment can be subordinated to the current tax system for the regulatory targeting system. The other stakeholder group, which has a high degree of freedom in cell counting, is the owner. This concentration process, however, has accelerated significantly, accountability gains more emphasis in a system where ownership and leadership circulate.

When approaching the accounting systems, it is an interesting question that the adoption of an advanced accounting system on the one hand affects the economic processes. Incorporating valuation approaches and modern accounting paradigms may potentially boost the country's economy significantly. Such research has been carried out for third world countries and it has been shown that this overwhelming effect can only work if there is not too much gap between countries, otherwise they cannot

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properly take and apply the evaluation process.

Analysis of accounting systems is an important criterion for accounting interest bearers, their needs, and their ability to enforce their interests. The role of the legal system cannot be neglected in the development of the accounting system, the basic concept. There is a completely different regulatory structure in this respect US GAAP, which details the rules in detail. This is called rules-based regulation, as opposed to better-suited, principle-based regulation of European traditions. The latter structure includes the one of the youngest complex rules mentioned above, as well as the IAS/IFRS rule system. It should be noted that the two systems are in the process of approximation, although long years have had to be adopted in the US statutory system to adopt IAS/IFRS reporting. The fundamental difference between harmonization and standardization processes is given by the strictness of accounting standards. Thus, a legal framework that contributes to the development of harmonization is characterized by greater flexibility, while a legal framework supporting standardization is characterized by high stringency and rigidity. In the international accounting convergence process, an increasing emphasis is placed on making accountability of state accounting systems. The transition to the accruals base, however, involves a paradigm shift that has no general recipe, as there are many scenarios that can be imagined. The experience of the former transition countries has been summarized in a detailed study by the Public Sector Committee in order to facilitate the transition of new countries.

2. TRANSITION PROCESS ACCORDING TO INTERNATIONAL RECOMANMENDATIONS

IPSAS standards are developed by the International Public Sector Accounting Standard Board (IPSASB). The panel was set up in the Public Sector Committee in 2004. IPSASB consists of 18 members, of which 15 members are from IFAC, and three other members are elected by other bodies. Each member has one vote. The members are elected for three years and the appointment can be extended for another three years. Each member can also have a counselor at the board meetings, and the counselor - of course - does not have the right to vote. The most important benefit of IPSASs (similar to IAS/IFRS) is public involvement. To this end, the members of the stakeholder bodies may also attend the board meetings as observers and delegates, of course without the right to vote.

IPSASB acts as an independent standard-setting body under the auspices of IFAC. His main tasks include the interpretation and adaptation of IPSASs, and the publication of studies and discussion papers to improve budget reporting. Reform of performance measurement can take place on several levels. With the slightest change, but with the least efficiency, is supplemented the existing structure in such a way that the necessary information can be extracted from the system. The system could also be transformed to allow conversion between the two accounting systems. This would otherwise be the least resistance, but the requirements would not be met and administrative burdens would increase steadily. Another option is to integrate an additional accounting level into the existing accounting system to help performance-oriented settlement. In this process, performance can be tracked. The biggest mistake of the solution is to further complicate the existing clearing system.

Most of the reorganization and the highest degree of reform require the solution to turn the view into a performance orientation. The recommended prerequisite for this

is that budget planning and compilation should be done in terms of performance, but at least in order to create the correspondence between the budget and the reporting data. However, this mode is followed by international practice, as the accounting principles that deal with the budget sphere are already being worked out. However, to apply them, you need to find a base to support the system in your country. International Standards on Public Accounting (IPSAS) builds on the principles of the operation of public finances based on rules taken from the private sector.

The International Financial Accounting Standards can be clearly distinguished from the accruals IPSAS, and cash-based IPSAS. When developing the IPSASs, accrual-based accountability has been identified as the ultimate goal, and accordingly, the most important part of the regulation is accrual-based standards. In addition, separate (single) standard deals with money-based settlement. The system of accruals IPSAS is adjusted to IAS / IFRS, taking into account budgetary accounting needs. At international level, the ratio of cash and accrual concept at international level was as follows (Figure 1):

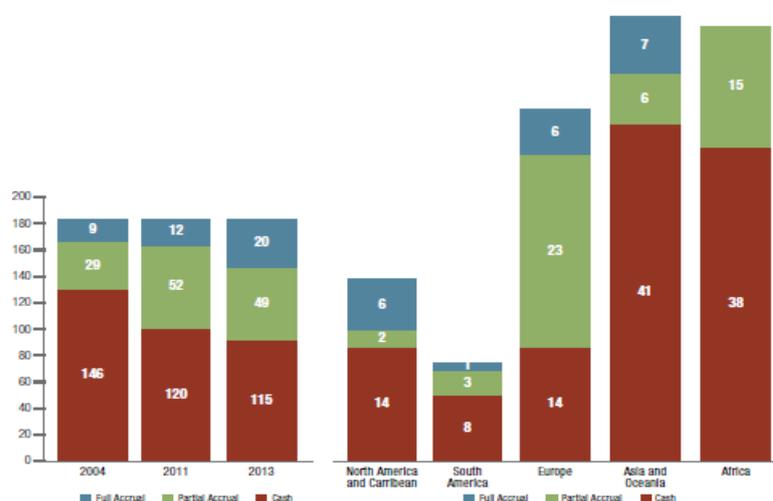


Figure no 1. Trends in Adopting the Accrual Concepts in Fiscal Statistics
(Source: Cavanagh, J., Flynn, S., Moretti, D., (2016), pg.53)

The accrual basis standard is the settlement base in which transactions and other events are evaluated when they arise (and not when the money or money substitute is transferred or paid). This is how events are accounted for and presented in the financial statements at the time they are associated with. Accrual-based accounting categories: assets, liabilities, equity, return and expense.

Relocation recommendations, though in some respects detailed, are quite general in some respects, since the provisions of the reform were decoupled from the current economic and political system. In the international accounting convergence process, accentuation of accountability of state accountancy systems is being made. However, the transition to the accruals base is a paradigmatic change that has no general recipe, as there are many variations. The experience of the former transition countries has been summarized in a detailed study by the Public Sector Committee in order to facilitate the transition of new countries.

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structure in such a way that the necessary information can be extracted from the system. The system could also be transformed to allow conversion between the two accounting systems. This would otherwise be the least resistance, but the requirements would not be met and administrative burdens would increase steadily.

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3. ASPECTS OF THE TRANSITION TO IPSAS STANDARDS

The board was established by the IFAC (International Federation of Accountants) in 1996. The main purpose of IFAC is to develop and approximate accounting worldwide. As a branch of this, the new body was intended to develop the unified accounting rules of budgetary organizations.

International Public Sector Accounting Standards (IPSAS) are a set of 40 accrual accounting standards and a home based standard. These are developed and developed by the International Public Sector Accounting Standards Board (IPSASB) and represent a key stimulus for the public sector accounting harmonization process. IPSASs are designed to provide high-quality, internationally comparable financial information to improve transparency.

Based on this, IPSASB's main task is to create high quality standards, thereby contributing to the preparation of generally understandable and transparent financial statements for both governments and their organizations.

The main task of IPSASB is to create high quality standards, thus contributing to the preparation of generally understandable and transparent financial statements for both governments and their organizations. His main tasks include the interpretation and adaptation of IPSASs, and the publication of studies and discussion papers to improve budget reporting. These organizations have set as their most important goal the support of international accounting convergence by consolidating and transforming the process of change in a unified way, and working constantly on standardizing accounting rules, setting standards defining the path to national standard-makers. We know that in the fiscal accounting, the cash flow approach is the sole exception, in fact, even in most countries. In order to change the cash flow, however, there is increasing pressure on the regulators, and in the European Union they are also calling for state reform of Member

States. The introduction of the accrual approach - though a long process - may have an impact on the performance of the sector as well.

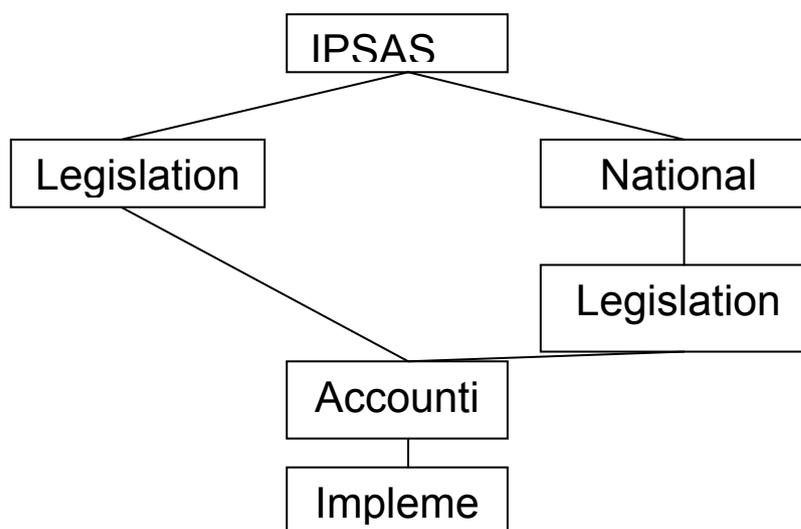


Figure no 2. Two ways to implement IPSAS

(Source: Bergmann, A., Braun, R., 2008, *The Value Added of IPSAS*, Pempal Workshop Istanbul, February 25 <https://www.pempal.org/.../pempal/.../pempalistanbulfeb1820>.)

In the case of the public sector, the idea of harmonizing accounting is more recent than in the case of the private sector for which reason it was not given the same importance as the private sector with no high interest for public sector accounting harmonization, given the large differences between states and the peculiarities of the public sector.

4. THE PERFORMANCE OF PUBLIC SECTOR ACHIEVED BY IPSAS

The introduction of IPSASs is also difficult because it cannot be so clear outline the need for accounting information of interest carriers as a business for businesses.

Performance measurement can be achieved by IPSASs, but standards do not provide performance indicators other than general profit orientation. Accordingly, the introduction of IPSAS may be suitable for generic disclosure of public finances and may provide a basis for comparison of comparable institutions but does not in itself address performance. There will still be a need to formulate performance targets separately. Standard drafters also take into account, as legislators declare the right to take a decision on regulations that conform to the standards. This is a fundamental paradigmatic difference to business standards.

IPSAS standards by sneaking the business's perspective on they are likely to promote the organization's flexibility, more dynamic and easier-to-use operations, as the accounting system provides a good basis for measuring the effectiveness of management.

IPSAS standards are developed by the International Public Sector Accounting Standard Board (IPSASB). This body was created from the Public Sector Committee by a simple name change in November 2004.

The public sector is difficult to adapt to emerging needs and it is particularly common for inadequate resource use, unjustified investment, and so on.

IPSAS standards translate the business approach to accounting and facilitate the organization's flexibility and ease of operation, as the accounting system provides a good basis for measuring the effectiveness of management.

There are a number of fundamental differences between the public and private sectors. The most important of these is the goal of entities, public institutions aiming to maximize welfare, taking into account the public interest, while private sector companies aim to maximize profit.

Significant differences between the public and private sectors also exist with regard to strictly accounting aspects. Important issues related to the provision of goods and services, social benefits, asset ownership, financing arrangements are very heterogeneous and differ significantly from the private sector. In the case of the latter, non-financial assets are treated as resource inputs in the production process, this being true only for certain parts of public sector actions (Barton, 1999).

Reform of performance measurement can take place on several levels. With the slightest change, but with the least efficiency, we are supplementing the existing structure in such a way that the necessary information can be extracted from the system. The system could also be transformed to allow conversion between the two accounting systems. This would otherwise be the least resistance, but the requirements would not be met and administrative burdens would increase steadily.

Most of the reorganization and the highest degree of reform requires the solution to turn the view into a performance orientation. The recommended prerequisite for this is that budget planning and compilation should be done in terms of performance, but at least in order to create the correspondence between the budget and the reporting data.

However, this mode is followed by international practice, as the accounting principles that deal with the budget sphere are already being worked out. However, to apply them, you need to find a base to support the system in your country. International Standards on Public Accounting (IPSAS) builds on the principles of the operation of public finances based on rules taken from the private sector.

Relocation recommendations, though in some respects detailed, are quite general in some respects, since the provisions of the reform were decoupled from the current economic and political system.

Changing and modernizing public sector accounting includes progress in improving costs and budgeting, but the main change that attracted public attention was the transition to accrual accounting, a process that had a significant impact on financial reporting and accountability.

Accrual accounting has been developed for financial reporting purposes by private sector entities and was considered to be superior to cash accounting efficiency, being more representative of sustainability measurement and providing much more information relevant in the decision-making process. At the same time, accrual accounting is considered more complex, from the point of view of the sound technical expertise and the high professional judgment it requires. In Romania, the introduction of accrual accounting in the public sector was a political decision, a condition for EU membership.

The emergence of globalization in accounting is the accounting harmonization, which approaches the different approaches and practices (Jeno, 2010). For the public sector, IFAC has initiated a program of harmonization in the 1990s to develop a unique

set of accounting standards for the public sector and to promote their introduction at all levels of government, namely, central, regional and local. The harmonization and modernization of the accounting system in the public sector are present both at international and European level.

Public sector accounting harmonization is considered as a way to significantly improve government accountability, to facilitate the analysis and comparison of financial reports prepared by stakeholders in the public sector, and to assess the performance of different levels of government.

The development of IPSASs was done by correcting international standards that is so true that where they were, they insisted on the standard text of IAS / IFRS and the differences were elaborated at the end of each standard. However, it is clear that IPSAS is spread across different lines of power. While there is a strong interest in dissemination in international standards, in the case of the budgetary standards, the demand for regulatory paradigm appears to be only indirectly through the development of the approach.

The aspects of accounting valuation and the expectations of the accounting system are approaching farmers in the geographical areas as well as in each sector. The modern management approach and generally applied analytical procedures require that accounting output is structured and reliable, but it is indispensable to strengthen the quality of the data used. There is an increasing need to rely on the data provided by the accounting system.

Consequently, the information needs of decision-makers are approaching each other, with which one of the most important interest groups has become interested in creating accounting convergence. Accordingly, we can witness the reorganization of the registration systems.

5. CONCLUSIONS AND RECOMMENDATIONS

The adoption of IPSAS has many barriers or criticisms of the proximity to private sector standards, the interest shown by states in maintaining their control and sovereignty, the costs and training that this adoption would entail, and the IPSASB governance concerns. The proximity to private sector standards generates IPSAS incompleteness with respect to specific public sector needs such as taxation or social benefits. While public sector research concerns are not as extensive as private sector sectors, there has been an increase in public sector interest, especially in the last decade.

Regarding the use of the accrual accounting system in the public sector, the overall trend in the literature is to appreciate its superiority compared to the cash-based accounting system, due to the sound expertise and professional judgment it requires. However, the results of some research indicate that in some jurisdictions, the cash accounting system is more suited to the needs of the public sector.

The research results show that none of the Member States of the European Union has fully adopted the IPSAS, the implementation being only recommended and not mandatory. However, there are countries whose accounting systems have a reasonable degree of compliance with IPSAS.

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