

The Way of Public Institutions to Accrual Accounting – case study Romania

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Abstract: The present research aims to investigate the manner in which the public sector accounting under transition from cash to accrual base can be accompanied by legislative stability and coherence, using the example of Romanian public sector. The importance of a clear and concise change process is one of the reasons for the research of this issue. Another reason was the lack of similar studies. The present study covers aspects that were not dealt with by the specialized literature and whose relevance for the European, mainly East European, public sector is highly significant. By advancing and testing five hypotheses where build up the conclusion about the selected research subject. The general and punctual topics that have a significant impact on the outlining of the accounting system typical for the Romanian public institutions were identified among the many normative documents of the period. It appears as a novelty the using of content analysis in the topic of interdependence between the development of the legislative system and the transition process from cash to accrual accounting system in the public sector. The impact of the research findings may be broadened to encompass other sectors as well, thus providing a general outline of the trend followed by the Romanian legislative framework.

Keywords: public accounting; transition from cash to accrual; legislation; content analysis; Romania

1 Introduction

IFAC and the International Public Sector Accounting Standards Board (IPSASB) promote the adoption of accrual-based accounting and IPSAS in the public sector' institutions as it reinforces the principles of transparency and accountability. In addition, a lot of international actors, financiers agree with this idea and request accrual basis and IPSAS application. International public sector entities, such as the Organization for Economic Cooperation and Development (OECD), the organizations within the United Nations and the European Commission (EC) apply accrual based IPSAS for financial reporting.

At European level, the accession to the European Union of the applicant countries required that their preparation process involves a wide range of essential changes by accepting and implementing the acquits communitarian, in the case of public sector accounting (PSA) the accrual basis and IPSAS recommendations. The Central and East European countries have responded thereto by implementing enormous changes, due to the pressure to comply with the EU requirements till the accession and the Romanian PSA was no exception to this.

The movement from one system to another accounting system is complex, especially in the public sector. There are several factors of influence, challenges to face it accordingly with Contingency Model built by Luder (1992) and criticized and improved by Ouda (2004, 2010).

The arguments for selecting the legislative impact item take into consideration the political nature of many of the activities undertaken within the public sector. In practice, this means that political influences will frequently be at work at the various stages of both the decision to implement accrual accounting and the subsequent implementation process (Aggestam C, 2010).

The current study aims to analyze the manner in which the PSA under transition from cash to accrual base can be accompanied by legislative stability and coherence, using the case of the Romanian public sector. Knowing the importance of a clear and concise change process we selected this topic. Another reason was the lack of similar studies.

By coherence we understand in general the extent to which a new regulation does not contradict with other regulations and in particular the extent to which a new Romanian public sector accounting regulation does not contradict with other Romanian public sector accounting regulation or IPSAS.

We will analyze the legislative coherence and stability by referring to Romanian legislative output. In particular, for legislative stability we will count the legislation output (the number of binding acts passed) over time. If less legislation is passed, this is considered as an increase of policy stability and vice versa.

Another aspect regarding the political stability token into consideration in our paper was the degree to which legislation is insulated from the political climate.

The effects of the transformations among the PSA were analyzed for periods 1984-1989, 1990-2001, 2002-2005 and 2006-2008. Analyze identifies the general and punctual aspects of the legislative impact. The parallelism between these four periods gives a clear view about what a period ante, during and post reform in Romania implies.

The study, as a whole, provides an overview of the Romanian legislative system, by highlighting the effects and implications of the centralized economy on the evolution of the PSA. With the passage to the market economy, many elements required ample changes in order to be defined, recognized, implemented and used. We consider into our research these period accordingly with Dietz N and Rothenberg L (2007) who consider " while maintaining legislative stability is difficult even given highly favorable circumstances, in a time of dynamic change, it is particularly problematic".

In order to achieve this goal, the study begins with a review of the specialized literature (Section 2) as theoretical support for defining objectives, hypotheses and research stages (Section 3). In Section 4 were identified the economic theories related to change—implications and effect. The quantitative and qualitative analyze of the Romanian PSA evolution according to its historical stages is presented in section 5 and 6 and, interpretations are in Section 7 followed by conclusions, limits and further developments.

2 Relevant Literature Review

2.1.Cash or accrual accounting system for public institutions

The dispute between the cash basis and accrual basis accounting systems regards at international level, a series of advantages and disadvantages peculiar to their implementation. The cash-based system brings the following benefits: ease of use, data intelligibility for a wide range of users, succinct presentation of the financial statements, reduced implementation costs (SAFA, 2006). However, the current realities require that the public institutions implement a high performance management system that implies directly public accountability (Coy and Pratt, 1998). The accrual basis system manages to meet this desideratum through the extended comparison of the financial reporting against the economic entities, in the context of the visible competition between them. Under the accrual basis, transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recognized and reported in the financial statements of the periods to which they relate (IFAC, 2010). Regarding this aspect, Carnegie and West (2003) express an opposite opinion according to which the performance measurement for an

economic entity has at its core the notion of profit, which is irrelevant in the public sector realm where social objectives are pursued. In the case of the accrual system, the reliability of financial information increases, performance evaluation becomes easier than in the case of the cash system, and accountability is ensured.

The advantages and disadvantages of the accrual accounting are subject of debates in several research papers, and these were points of interests for many researchers. They usually encompass the accurate measurement and communication of entities' financial position and performance as well as the improvement of accountability and transparency (Pallot, 1997; Ryan, 1998; Van der Hoek, 2005). Nevertheless, other papers have cast doubts on the superiority of the proposed accrual systems over the cash accounting ones that are customarily used for the public sector. Criticism has been expressed in both theoretical (Montesinos et. al, 1995; Monsen, 2002) and practical terms (Guthrie, 1998; Stanton and Stanton, 1998; Newberry, 2002). A compromising solution suggested by researchers is the parallel coexistence of both cash and accrual accounting systems (Monsen, 2002; Christiaens and Vanhee, 2002). However, even this prospect has raised doubts in relation to the benefits that would prevail from the simultaneous operation of both accounting systems (Guthrie, 1998; Paulsson, 2006; Anthony, 2000; Anessi-Pessina and Steccolini, 2007).

Concerning the public sector accounting reform in East European countries, Tiron-Tudor (2006) analyzed the impact of movement from cash to accrual accounting in their countries and concludes that there is no single model of reform knowing the fact that since countries differ at the level of individual reforms. Nonetheless, reform strategies have many points in common emphasizing the international character of public management reform.

Nistor et al (2009) studies the evolution of PSA in Romania in the post-communist period by using a comparative approach. The results show the similarities and differences between the evolution of Romanian public and private sector accounting. Another approach developed by Dascalu C. Et al. (2006) reveals the professional accountants' problems of attitude, reasoning, ethics and strategy in the period of Romania's adherence to the European Union. Pitulice C. (2007, p.4) suggest the same idea which confirms that all these changes of the PSA "represent an impulse towards professional reasoning".

In the Romania case, there are opinions that emphasize the benefits of the new system (Horobeanu S., Alecu G. 2003), but also more reserved opinions (McKendrick 2003). Thus, in some people's opinion (McKendrick 2003) as long as the transition towards accrual accounting is valid for developing countries, that this not necessarily suitable for less developed countries or with a transition economy. Moreover, in Sigma's opinion (organization that provides assistance to central European countries, which are preparing for UE adhesion): both the efficiency of the reform in the countries where it was implemented, and the viability for economies in transition remains a debatable subject for both academics and practitioners.

2.3 Legislative Factor Influence on the Accounting System Change

The accounting literature provides insight into the complex nature of instituting accounting changes within the public sector. (Aggestam C,2010)

Puxty et al. (1987) provide a theoretical framework to examine the interplay of key influences and modes of regulation regarding the change of public accounting system, with the purpose to highlight how these affect the content and consequences of accounting policies and practices. They provide a framework for exploring and evaluating contemporary challenges to the authority of regulatory institutions of accountancy.

Luder's contingency model (Luder, 2002) represents a starting point in the research of the factors that affect implementation of public sector accounting. Ouda (2004,2010) developed and improved the idea. The major contribution of Ouda's model is its emphasis on the fact that, the introduction of

accrual accounting must be support and justify by a number of factors and changes.

Few studies in the international and national literature discuss the legislative impact over accounting system in a transition period.

Harun and Robinson (2010) in their research about the public sector accounting reforms in Indonesia underline the legal issues and the lack of political supports being the significant implementation barriers. These barriers in turn threaten the intended purposes to be achieved through the greater economic and public sector reforms in the newly democratic Indonesia (Harun and Robinson, 2010).

Analyzing the factors that affect the accounting change, Christensen (2002) concludes that governments and public sector entities often contain features of political or bureaucratic environments. Within political and bureaucratic environments, a number of implementation barriers may come into play that can increase the cost or time required to implement accounting change.

Political support and support of the legislature together with other factors like the existence of an acceptable cash accounting or modified cash accounting based system, technical capacity and adequate information systems are preconditions of an accounting system change to accrual based. (Khan & Mayes, 2009; Ouda, 2010)

Taking this opinion as a starting point, we focus on developing a historiographical research of the evolution of the Romanian PSA, along with the identification of events, factors and periods that marked the PSA evolution.

3 Research Methodology

In the public conscience, the notion of change creates more often than not uncertainty, insecurity, incoherence, difficulty in adapting to the new, the tendency of rejecting the change. Moreover, an abundant legislation joins the change. The newness of the current study results from the analyze of the impact that such regulations may have on the Romanian PSA. In conducting the present study, it was developed five hypotheses, whose validation or invalidation will lead to the clarification of a major dilemma: it was or not a period of transition characterized by stability in Romania?

In order to quantify the impact of the legislative changes in the Romanian PSA, following the idea of Nistor C (2009) as the starting point, the study extends the period, improve the objectives, the fundamental theoretical base and the methodology.

The formulated hypotheses are as follows:

H1: In the centralized economy period, there is legislative continuity and stability.

H2: The beginning period of the market economy coincides with some shine beginning of PSA adaptation to the new economy.

H3: The change of the Romanian PSA presupposes the issue of a great number of legislative acts.

H4: In order to reach the aim of the process from the very beginning of the procedures of legislative changes, the legislator imposes security and continuity in the sequence of stages undergone.

H5: The user of the legislative acts in different financial management departments may rely on the continuity of the regulations issued by the legislator during the reform period and afterwards in the post reform period.

To issue an opinion about the stated hypotheses were performed the follows steps:

In the first stage, the whole period 1984-2008 was brake in two initial sub periods 1984-1989 and 1990-2008, taking into account the 1989 event, respectively the movement from a centralized economy to a market economy in Romania. The second sub period 1990-2008 was divided in other two periods following the criteria of the base used for accounting (cash, modified cash or accrual) and resulted the next three periods: 1990-2001 regarded as cash base accounting, 2002-2005 as modified

cash accounting and 2006-2008 as accrual base accounting.

The analyze starts with the year 1984, the year of implementation a new chart of accounts for public institutions and we finalized the research in 2008 considering that, after this year, the accrual accounting is fully applied.

For each of four periods, were synthesized the distinctive elements of the accounting system in its economical and political environment.

After this, knowing the facts, were identified those theories, which explain the reason of the change mechanism.

The research primary sources are the normative documents issued in the period 1984-2008 by the Romanian legislator that have a direct impact on the accounting of the Romanian public institutions. These regulations are published in the Official Gazette, the official publication of the Romanian State. The documentation in the communist period was extremely difficult (to find) because the normative documents issued in this period cannot be entirely found in the collection of Romanian Official Gazette. This is the reason why, for the 1984-1988 centralized economy period, the documents that were found, are filled in and updated, according to the reports provided by the editors of the Official Gazette.

The method of content analysis was chosen because there are a lot of studies in accounting whose results are centered on content analysis. Bettman and Weitz, (1983), Staw et al (1983) and Abrahamson and Park (1994) adopt a content analysis approach to explore the causal explanation or account for company performance; D'Aveni and MacMillan (1990) use content analysis of shareholder letters to explore the differential strategic responses to demand crises by the top managements of surviving and bankrupt firms. In the same time, we were aware about the certain limits to this method: Krippendorff (1980) warns against the potential unreliability of self-applied investigator developed recording instructions; another significant limitation is that it assumes that frequency of occurrence directly reflects the degree of emphasis accorded to words or themes, but this may not always be so. (Weber, 1990, p.71)

The general and punctual topics that have a significant impact on the outlining of the accounting system typical for the Romanian public institutions were identified among the many normative documents of the period. To confirm or dismiss the hypotheses stated throughout the paper were applied some economic analysis procedures. The study last part content the debates about the results obtained, the conclusions, the limits and perspectives of the research.

By means of the applied research conducted within the limits of the deductive accounting theory, we wish to test the researched items against the legislative acts by projecting and substantiating them through the underlying theme analysis. Another new aspect of the research is the usage of content analysis in specialized papers discussing the topic of public accounting, and especially the interdependence between the development of the legislative system and that of the Romanian PSA, divided into the four periods.

By its implications, the study concerns the legislator, the direct user of the accounting regulatory framework, as well as public as the legislative-accounting aspects directly affect them. The legislator shall be able to identify the main shortcomings that prevented the initiation of a coherent transition process necessary to implement with success a new public accounting system. In addition, the legislator shall be able to extrapolate them to other similar situations peculiar to the accounting system of the economic entities, the bank and insurance systems or other systems. Through involvement in the public debate of the regulatory acts, the user of the regulatory acts shall be able to influence their content by making concrete proposals regarding their contents, succession and pertinence. The public shall be able to form an idea about the manner in which their government and parliamentary representatives are consciously involved in developing with minimal costs a timely, correct, coherent and effective PSA.

4 The impact of Change in Terms of Simon's Theorem and Institutional Theory

Any change is uncertain at its beginning. The decision regarding the way which should be followed is extremely difficult and risky (Nistor et al, 2009). We resort to Simon's Theorem and Institutional Theory in order to be able to quantify the ample process of change of the public accounting system, whose start was shrouded in uncertainty. The initially created legislative framework failed to encompass all the aspects subject to change. On the one hand, it was because it failed to identify each aspect individually and, on the other hand, because the mutual dependence of various stages prevented the change of the entire process in a single step.

Simon's Theorem (Simon H., 1991) proves that the systems tend to stop at the first satisfactory solution as a characteristic of the methods used in making decisions in uncertainty. This can also hide following unsatisfactory effects, which might be difficult to quantify at their initial acceptance. In such a context, the „strategy of decision making step-by-step” is common for the decisions for complex problems that are difficult to reason about at the beginning (Parsnow J., 1994). On the one hand, the technique of this strategy consists of the division of complex problems in under/minor problems, until their possible cognitive approach, and on the other hand, it consists of the interaction between parts and new problems. The experience of interaction between the partial decisions and the solving of these problems determines the development of the step-by-step solution (North D., 2004).

The institutional theory implies rules imposed by third parties to organisations, especially by the government. We can say that the literature on institutional theory is various and complex. There are a lot of papers that use this institutional theory as an accounting research method.

Currie W. (2009) considers that variants of the theory originate from across the disciplines (eg. economics, sociology, political science, history and ecology) with contributions broadly discussing either the “effects” or “processes” of institutionalization. Ribeiro J A and Scapens R (2006) made an analysis of the literature on management accounting change, with a special emphasis on the literature drawing on institutional theory.

In the last years, institutional theories have been prominent in extending the study of management accounting, and management accounting change, to include the social and institutional dimensions of organizations and their environments (Moll et al, 2006). More specifically, from an institutional perspective, management accounting systems are seen as inextricably linked to the prevailing rules and norms, which structure social and organizational life (Covaleski and Dirsmith, 1986, 1988; Burns and Scapens, 2000).

Burns and Baldvinsdottir (2005) propose a way forward for the institutional analysis of management accounting change, which drew on the ideas of contradiction and praxis proposed by Seo and Creed (2002). According to them, there are several possible sources or triggers for institutional change, including the creation of change agents, the weakening of prevailing institutional arrangements and the promotion of conditions legitimizing change.

Current literature has examined how institutional studies might improve the knowledge, specifically related to accounting. In addition, Riaz S (2009) presents the global financial crisis from an institutional theory perspective. He considers while the current crisis has several aspects that can be understood using various disciplines and theoretical lenses, new institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) can provide a unique perspective for understanding key aspects of the organizational-institutional interplay in the unfolding of the present crisis.

5 The Analysis of the Public Sector Accounting Under the Impact of the Legislative Changes

Starting from the total normative documents published in the Romanian Official Gazette, we selected all regulations which have a reference to the subject “public sector” and “public sector accounting” for the four periods, namely 1984-1989, 1990-2001, 2002-2005, respectively 2006-2008.

Table 1. The number of selected regulations per periods and topics

Topic	1984-1989	1990-2001	2002-2005	2006-2008
Public sector	134	490	476	302
Public sector accounting	16	97	121	82

In the second stage, for the total of regulations which have a reference to the subject “public sector accounting” we proceeded to open (substantive) coding on a line-by-line basis (also see Lye, Perera and Rahman, 2005), appealing to the comparison technique, selection technique and synthesizing technique. Therefore, we clustered the regulations into themes, expressed by us and defined through a brief terminology, where it was possible, for example, for such concepts as amortisation, revaluation, expenses and incomes.

Krippendorff (1980, p.63) suggests that for many content analyses thematic units requiring user judgement in the determination of the hidden messages conveyed in the narratives may be preferable despite application difficulties. Two alternative generic approaches to content analysis are usually taken for quantitative analysis is contemplated: “form orientated” (objective) analysis, which involves routine counting of words or concrete references; and “meaning orientated” (subjective) analysis, which focuses on analysis of the underlying themes in the texts under investigations (Smith, 2003, p.148). We especially insist on the second approach.

In order to make up some themes, some interpretations that we have made were necessary or some diminutions of the messages to retain the main effect, for example, “irreversible depreciation of fixed assets” we considered in relation to the “amortization” theme.

The themes were centralized and divided into two classes in accordance with the message and the possibility of testing, namely general themes, and punctual themes.

The general themes are related to public finance management and describe the environment in which accounting is performed and the punctual themes refers to specific accounting topics. The argument was the strong connection between accounting system and financial management system in the public sector reform process, outlined by researchers. Scott, McKinnon and Harrison (2003) said the introduction of the accrual-based accounting in the public sector is viewed by some authors as a reform of the financial management and accountability, and according to Christiaens et al. (2008) the governmental accounting reform has often been the first step of government’s modernization policies for public organizations.

Because each of two clusters contains more than fifteen themes, were reanalysed the theme selected and we reduce the number of themes at six for each cluster.

To select the relevant themes for the general cluster were focused on the elements of Public Sector Financial management. To define the components of Public Finance Management were analyzed some relevant resources like OECD and World Bank.

In OECD (2008) view Public Financial Management (PFM) as generally understood, includes all components of a country’s budget process – both upstream (including strategic planning, medium-

term expenditure framework, annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight.

The World Bank (2008) too describes PFM in terms of its parts budgeting, accounting, internal control and audit, procurements, funds flow, financial reporting, and external auditing arrangements by which they receive funds, allocate them and record their use.”

In addition, it was analyzed the website of Romanian Finance Ministry to see how are structured the information regarding the legal framework for public institutions, and finally we established the general themes and the punctual themes with impact over public sector accounting.

To select the relevant theme for punctual cluster was considered the Romanian new accounting regulation for public entities and the themes were selected accordingly with the importance of the theme counted in number of pages from the total number of regulation pages.

For each general and punctual theme were calculate their score, apparition of the theme name. In the follow table (Table 2.) are presented the general and punctual themes and their score for each period.

Table 2 Themes regarding the public sector accounting and their scores

IDENTIFIED THEMES	SCORE/THEME PUBLIC ACCOUNTING SYSTEM			
	1984 – 1989	1990 – 2001	2002 - 2005	2006 – 2008
General ¹				
1.Public finance	1	6	15	25
2.Fiscal revenues	1	2	17	12
3.Budget	1	2	11	9
4.Public internal audit and control	1	1	7	2
5.Procurements	0	15	10	11
6.Treasury and public debt	1	5	3	2
Punctual ²				
1.Organization and management of public institutions accounting	1	2	9	11
2.Accounting documents and books of account	1	1	4	4
3.Financial statements	0	1	9	13
4.Amortization and revaluations	0	0	11	8
5.Elements of financial position	0	4	23	12
6.Elements of results account	0	2	34	14

Notes: ¹the general themes define public finance management aspects; ²the punctual themes identify the key elements of the Romanian public sector accounting

According to our analysis, the period between 1984 and 2001 is characterised by stability with minor changes in PSA, characterized by continuity and consistency of the existing normative documents. In this interval, the cash base system was used in public sector accounting. We investigated the pre and post period of movement from centralised to market economy and our conclusion is in even from a political point of view there were major changes, these changes were without impact on the PSA.

In the period 1990-2001 were regulated new domains like procurements and some specific aspects about elements of financial position and result account and financial statements, and in the next period 2002-2005 domains like amortization and revaluations.

In the third stage of research, we computed the category variable: number of general themes, respectively punctual ones from the normative documents published in the Romanian Official Gazette, considered in the first stage having a direct impact on the public accounting system.

The formula for computing the category variable was:

$$C_i = \frac{N_{Ci}}{T_{NR}}$$

Where: C_i – the category variable; N_{Ci} – number of publications of i category; T_{NR} – total number of normative documents with impact on the public accounting system/ each period.

For the general themes we used the total of regulations concerning the PFM and for the punctual themes we used the total of regulations concerning the PSA.

This formula represents our own adaptation of Smith and Taffler (2000), who adopt the basic definitions (word, theme) in their conduct of both forms – oriented (word-based) and meaning – oriented (theme-based). The term “word” is taken to indicate semantically equivalent textual units, including word synonyms, idioms and phrases (Weber, 1990, p.22), and “theme” is taken to mean clusters of words with different meanings or connotations that, taken together, refer to some theme or issue (Weber, 1990, p.37). We mostly use the category “theme” throughout the present paper.

The qualitative content of the narrative is transformed into quantitative variables for subsequent analysis with simple formulae (Smith M., 2003, p.149)

Word variable = Number of common occurrences / Total number of words in the narrative

In the fourth stage, we computed the variable of the period, by summing up the variables of the categories belonging to the same theme, based on the formula:

$$T_i = \sum_{i=1}^n C_i$$

Where: T_i – the category variable, based on the number of quotes in legislation.

In the last stage, proceeding to the computing of category and theme variables, we obtained the comparative situation of the legislative impact on the PSA. The results are presented in Table 3 – The comparative situation of legislative influences on the PSA during the four periods.

Table 3 The comparative situation of legislative influences on the PSA within the four periods

THEME	PUBLIC ACCOUNTING SYSTEM			
	Variable of the theme			
	1984-1989	1990-2001	2002-2005	2006-2008
General ¹				
1.Public finance	0.75	1.22	3.15	8.28
2.Fiscal revenues	0.75	0.41	3.57	3.97
3.Budget	0.75	0.41	2.31	2.98
4.Public internal audit and control	0.75	0.2	1.47	0.66
5.Procurements	0	3.06	2.1	3.64
6.Treasury and public debt	0.75	1.02	2.48	0.66
Punctual ²				
1.Organization and management of public institutions accounting	6.25	2.06	7.44	13.42
2.Accounting documents and books of accounts	6.25	1.03	3.31	4.88
3.Financial statements	0	1.03	7.44	15.85
4.Amortization and revaluations	0	0	9.09	9.76
5.Elements of financial position	0	4.12	19.01	14.63
6.Elements of results account	0	2.06	28.1	17.07

6 The Legislative Content of Regulations for Each of Three Periods

6.1 The communist period 1984-1989 cash based accounting

The year 1989 finds Romania in the communist period. Known especially under the name of budgetary accounting, the public institutions accounting was under the direct influence of the soviet accounting system created by the soviet school, founded on the Marxist theory of value, with applications that responded to centralized planning. C. Nobes and R. Parker (1998, p.295), conclude regarding this problem that “in a centralized economy, accounting has in some way a less prominent position, is inflexible and does not respond to novelties that appear on the market”.

In what concerns the accounting system, performing an analysis of the accounting applied in the planned economies at a centralized level (Romania included), R.Schroll (1995, p.827) identifies the following four aspects. Accounting is not, in principle, a tool at the disposal of the managerial team of an enterprise or of another entity (institution, organization). On the contrary, accounting must fulfil the needs of the central institution existent in a planned economy, such as the state planning commission, the statistics central bureau, Ministry of Finances. The financial statements have the role of delivering the necessary information to the central authorities involved in the management of a planned economy and are complementary to the statistical statements, fulfilling a dual but contradictory role: they are used as a control instrument of accomplishing the planned objectives for the current period. They offer information that serve at fixing the planned objectives for the next period. The accounting information is considered secret and is not published.

If in Western Europe and the United States of America, the accent is on informing the users. In the Central and Eastern Europe countries (Albania, Bulgaria, Czechoslovakia, Yugoslavia, Poland, Romania, Hungary and USSR), accounting had to offer information with a statistical purpose and for the planning made at a national level.

6.2 The after Revolution Period 1990-2001, Cash Based Accounting

December 1989 represents for Romania the end of the centralized economies period and the beginning of market economies. The political, economic and social implications of this transition have been enormous.

A new legal framework was created in the first 3 years of this period. The follow changes address to the research subject:

- a. Law no.10/1991 of public finances published in the Official Monitor no.23/1991, the financial charter of Romania, which contents a large part assigned to the principles of elaborating, approving and execution of the national public budget. The law sets up the notion of state budget instead of sole national budget. For the first time, the law confers a true autonomy to the budgets that compose the general budget.
- b. Government Order no.78/1992 through which the Ministry of Public Finance was authorized to set up treasuries as part of the subordinate financial bodies, namely: general directions of the public county finances and Bucharest city, financial administrations. This is one of the coordinates of the financial system reform in Romania. Through its own treasury, the state mobilizes, directly or indirectly, the fund reserves, assuring, at the same time, the exercising in proper conditions of the Ministry of Public Finance’s attributes and its territorial units. In addition, through the public finances treasury the efficient use of state’s resources towards the public institutions is assured, the conformations of the destination of funds approved through the budgetary law, as well as strengthening the responsibility of the credit chief accountants in managing public money.
- c. Accounting Law 82/1991 stipulates that all entities, public or private, have the obligation to organize and manage their own accounting system and the financial accounting, and to

adopt a management accounting system to the specific of the activity. Public institutions accounting provides information to the institution's manager regarding the budget execution, the patrimony in administration, as well as for preparing the annual general account of the state's budget execution, the annual execution account of the social state insurance, special funds, as well as annual execution accounts of local budgets. All entities are obliged to use the double-entry accounting and annual financial statements. Only the public governments from communes may keep the simple-entry accounting.

d. In August 2001, the Government Ordinance no. 61/2001 for completing and amending the Accounting Law no. 82/1991 establish the general implementation framework of the law and one essential requirement regards the compulsory use of double-entry accounting for all entities.

In the rest part of this period, there were minor legislative initiatives with impact on the public sector accounting, but compared it with the private sector; it is obvious the legislator major interest to regulate the private sector.

Cash public accounting system characterizes the second phase, the same like into the centralized economies with small improvements. The public institutions use the same accounting chart as the one from the socialist period, approved in 1984, slightly updated to the present requirements.

6.3 The Movement from Cash to Modified-Cash Base of Accounting 2002-2005

Following the decision of the Council of the European Union in Helsinki (1999), Romania had to implement changes in the management system of its public institutions so that it may be integrated in the European Union in 2007. Romania's starting point in this ample process of change is marked by the existence of an accounting system deeply entrenched in the realities of the centralised economy regime.

In 2002, because of the Romania EU integration perspective, the public accounting reform and its harmonization with the European and international requirements becomes necessary. Thus, the Public Finance Ministry had to reorganize the budgetary accounting through: adding to cash based accounting elements of the accruals basis of accounting and the application of the Financial Regulation provisions of the European Union no. 1605/2002 and of the European system of accounts (SEC '95) regarding the moment of accounting registration of the economic-financial operations "on the basis of established rights, respectively at the moment of creation, transformation and disappearing/annulment of an economic value, of a receivable or of a bond".

The transition towards the accrual accounting system imposed a series of preparation measures. These have brought radical changes in comparison with the existing accounting technique, in addition to the cash basis accounting system, typical of the public institutions.

Given the context, the object of public accounting spans to not just budgetary revenues and expenses those reflect cashing in of credit items and payment of expenses (cash basis), but also to the general accounting. The last one is based on the principle of accrues the rights and obligations in order to outline the entity financial position, together with the results' account (accrual basis).

The public institutions chart of accounts was extended with new accounts, which regulate the supplementation of the accounting cash system with the one on the accrual basis (OMFP 1746/2002 for the approval of the methodological Norms regarding the organization and governance of public institutions accounting).

The induction, liquidation, ordering and payment of public institutions expenses (OMFP 1792/2002) implement the budget execution of expenses in four stages for all public institutions and the organization, monitories, record and report the budgetary and legal arrangements starting with 2003. The organization and leading of budgetary incomes accounting (OMFP no.520/2003) require the

mandatory recording in accounting the rights and obligations of the public institutions when they are acknowledged.

The introduction of the fixed assets depreciation starting with 1st of January 2004 has brought in ample processes of restructuring with regard to the registration methodology within the cash accounting (cash basis). One of the reasons for this resolution is the increasingly economic feature noticeable in public institutions. The public institutions calculated the depreciation of tangible and intangible assets using the straight-line method (G.O 81/2003). The accounting of tangible assets and lands until the introduction of depreciation was at historical cost without the depreciation.

The revaluation of tangible assets owned by public institutions, had the objective of bringing them to their current value, to update their initial value correlated with the usage of goods and their market value.

OMFP nr 1025/2005, stipulates the introduction of a new budgetary classification applicable starting with 2006. The new one is in accordance with ESA 95 requirements concerning accounting and public debt, in order to improve the structure and transparency of the public funds operations and the Romanian engagement related to the common acquis implementation in the field of public finances. This was assumed through the standard document in Chapter 11 – The Economic and Monetary Union.

Also in 2005 CECCAR to support the transition from cash to accrual accounting in Romanian public sector, published the International Public Sector Accounting Standards (IPSAS) in the Romanian version. Moreover, CECCAR started a series of training for the accountants of public sector.

At the end of 2005, was issued the new accrual accounting regulation (OMFP1917). By this innovative regulation, the Romanian legislators finalize to align the accounts chart of public institutions to the framework already created for the economic field. They succeeded and presented an accounts chart with the same structure as the one for economic entities, that contains a significant part of the budgetary sphere features. The standards that accompany the accounts chart contain, sometimes even identify, the concepts and definitions that exist in the International Public Sector Accounting Standards.

The main adjustments of this period regard (Tiron-Tudor, 2006):

1. Accrual systems, for inventories, receivables (taxes, social contributions and interests) and payable, necessary for the recognition of expenditures (and receipts) done in financial periods other than those in which the costs were incurred.
2. Recognition of full depreciation of fixed assets, to ensure full incorporation into the costs of activities of the consumption, use and deterioration of fixed assets. This is often a significant cost component of capital-intensive public sector activities.
3. Assessment of normal profits as "costs of capital": will recognize the return on investment implicit in the use of the funding of assets by owners or, other funding sources in addition to loans.
4. Revaluation of fixed assets will result in recognition of current fixed asset values and the related current costs of depreciation. It also affects the proper recognition of return on investment, when expressed as a percentage of the real (opportunity) costs of capital.

The movement from cash base to modified-cash base accounting system characterizes the third period. The cash base accounting was supplemented with elements of accrual accounting (e.g. revaluation and amortization of public institutions assets, the creation of depreciation adjustments, and other elements that define accrual accounting).

6.4 The Period of Accrual Base Accounting Starts in 2006

The accounting system implemented on the 1st of January 2006, is on accrual base, within which the international standards have a significant share. The main characteristics of the new accounting system are the follows:

- a. presenting the set of financial statements and the content of each component following the IPSAS,
- b. the result of the exercise is a patrimonial result that contains engagements and obligations that are or not yet in cash or paid,
- c. the evaluation methods of assets and liabilities are in accordance with accrual principles and IPSAS recommendations and
- d. the budget is cash base developed in a separate budget for each finance resource giving the possibility of funds' identification.

Specific for Romanian public sector accounting is that at the same time was realized the harmonization with the private sector accounting regarding the Chart of accounts.

The fourth period presents the implementation of full accrual accounting system in Romanian public sector with the complete set of financial statements according with IPSAS joined by a budget on cash base and maintaining the budgetary execution account, whose content preserves the typical elements of cash accounting, presenting in its content the paid expenses and collected incomes.

7 Results and Conclusions

As emergent country, Romania has been many times under the influence of political, economic, social, educational and decision-making factors in shaping decisions. Consequently, Diamond (2002) believes that, under the influence of the said factors, the emerging economies have too eagerly accepted this reorientation, from the cash based system to the accrual based system.

In any transformation, the start and the end of the process must be assessed and quantified. The end of the transition process should coincide with the legislative stability so that the change may have the expected effects. We wish to evaluate these aspects in the present study as they apply to the Romanian public accounting system.

The beginning of 90's can be considered the start of ample changes needed for the creation of a modern accounting system, adapted to the international reality in this domain. This thing arises from the dynamics of the legislative documents of this period, according to Table 2 - Formulation of the discussion themes regarding the public accounting systems and their scores and Table 3 - The comparative situation of legislative influences on the public accounting system within the four periods.

The fact that at some general or punctual elements the number of identified documents is zero shows us whether: the element was not proper to the used accounting system, so it was not legislated (e.g. reversible or irreversible depreciation of an accounting systemem in cash basis), or the normative documents is from a previous period of the research and are maintained in the initial form and in the period analyzed (e.g. chart of accounts proper to public institutions appeared in 1983).

In these conditions, the first and second hypotheses we consider validated.

The number of normative documents that legislate the organization and management of the accounting of public institutions or the public politics, as general themes, and financial statements and expenses, as punctual themes were larger during 2006-2008 than it was during 2002-2005. We cannot declare that it is a favourable thing, impregnating in the perception of the users of legislative public accounting system the idea that the transition did not finish, that changes will persist in the future and the continuity and coherence are questionable.

On the other hand, the continuity of the legislative decisions is an arguable aspect. Given that the value of changes is high from one level to another, considerable uncertainty remains about the correct applicability of the normative acts. Even if the regulations are issued in relation to the same base (e.g. financial statement, amortization), the implementing rules that provide extra explanations or other references make pressures on the user of the legislative act so that s/he may constantly be anchored in all these legislative successive stages.

Within this context, the economic theories taken to support the process of change give credit to the opinion according to which the decision that must be taken concerning the way to follow in the case of a far-reaching change is highly difficult and risky (Simon’s Theorem). The changes occur following the identification of some unfavorable effects that are difficult to quantify when a certain way is initially adopted, and the solving of the said unfavorable effects requires gradual changes which, in the end, cause uncertainty and discomfort. In the case of the public institutions (Institutional theory), certain mechanism which developed in time are difficult to undergo radical changes, a fact that requires the adoption of the accrual-based accounting system instead of the cash-based one.

To test the third hypothesis “The change of the Romanian public accounting system is accompanied by a legislative abundance, we compare the regulation issued in the periods 1990-2001, 2002-2005 and 2006-2008 for both PSM and PSA, as is presented in the follow figure .

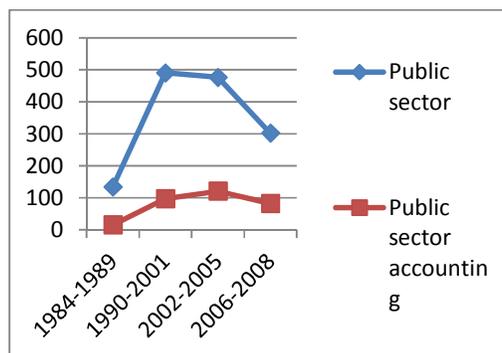


Figure 1 Evolution of regulation’s number by periods and general /punctual themes.

Concerning the PSM, in the 1990-2001 period we observe the higher number of regulations, followed by the next two. The result in correct knowing that in 1990 was a huge change in Romanian socio-political and economic environment and the passage to a market economy requires a new legal framework for the whole system public and private. As regarding the PSA, the maximum of regulations was in the modified cash accounting period (2002-2005) the transition period from cash to accrual base for accounting. In both case is confirmed the idea that the change is accompanied by a legislative abundance.

To eliminate the possible effect of different length of periods, we calculate and study the average number of regulations /year of each period for both PS and PSA, presented in Table 4. Concerning the PSM, in the 1990-2001 period we observe the higher number of regulations, followed by the next two. The result in correct knowing that in 1990 was a huge change in Romanian socio-political and economic environment and the passage to a market economy requires a new legal framework for the whole system public and private. As regarding the PSA, the maximum of regulations was in the modified cash accounting period (2002-2005) the transition period from cash to accrual base for accounting. In both case is confirmed the idea that the change is accompanied by a legislative abundance.

To eliminate the possible effect of different length of periods, we calculate and study the average number of regulations /year of each period for both PS and PSA, presented in Table 4.

Table 4 Average regulations/year in PSM and PSA

Period	1984-1989	1990-2001	2002-2005	2006-2008
Years	6	12	4	3
Average regulations/year PSM	22.33	40.83	119	100.67
Average regulations/year PSA	2.67	8.08	30.25	27.33

During the period 1990-2001, the average regulations in PSA /year are 8,08 documents and in the beginning period of public sector accounting reform, modified cash base period the average regulations in PSA /year increase at 30,25 documents, more than 350%, and in the period 2006-2008, the average regulations in PSA /year remains at a high level 27,33 documents .

Therefore, the third hypothesis “The change of the Romanian public accounting system is accompanied by a legislative abundance” is valid, verified during both the reform period and the period that followed but this last aspect is not at all favourable for the Romanian public legislative system from the point of view of security that it generates.

The fourth hypothesis “The legislator imposes security and continuity in the sequence of stages undergone in order to reach the aim of the process from the very beginning of the procedures of legislative changes” is false. If we analyze the fact that at some punctual elements, the changes followed one another more rapidly during the post reform period, we come to the conclusion that at the beginning the legislator did not know and could not quantify all the implications of the changing of the accounting system. We synthesize this statement in Figure 2 – The comparative analysis of the legislative influence reported to general and punctual themes. It is obvious that the legislator interfered later by gradually trying to diminish the unseen effects that appeared on the way. For sure, this thing does not denote stability and continuity.

GENERAL THEMES

PUNCTUAL THEMES

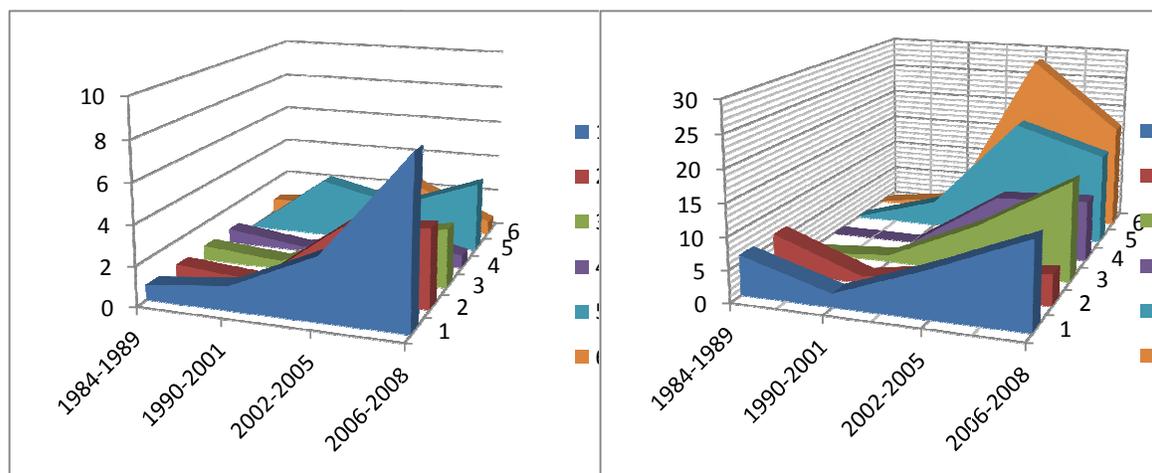


Figure 2 The Comparative Analysis of The Legislative Influence Reported to general and punctual themes

From the point of view of the user of the legislative package (management department, financial accounting department and human resources department), the fifth hypothesis is proved to be false. It is very hard from the point of view of the user, to start accommodating to a change, understanding it and complying with it, only to observe the emergence of new elements, which might infringe the initial values.

Thus, the internal and external user of the legislative pack is under the influence of a series of changes, which it has to resist and to retort, because many changes surface because of the feedback received

from the practitioners. They are the ones who put the legislative changes into practice, but at the same time they generate them by the practical perception of some ideas which are purely theoretical most of the times (Nistor et al, 2009).

To summarize the study results we draw up the follow conclusions:

The first period between 1984 and 1989 is characterised by stability of the legislation issued for the cash base public sector accounting in a centralised market. The second one, between 1990 and 2001 is by characterised by the beginning of market oriented economy period of public accounting system. The third period is characterised by pronounced dynamics of the legislative system imposed by the transformations in the public accounting system. The fourth period should characterise the period of stability in which the terms already defined of the new system should be accepted and put into practice. The parallelism between these four periods gives us a clear view about what a period ante, during and post reform in Romania implies.

The study shows that changes are not an easy thing. Therefore, in order that they accomplish their objective, they have to be sure, continuous and consistent. At the level of the Romanian public accounting system, the adaptation of the accrual basis accounting is a fait accompli but the manner in which it was done from a legislative viewpoint presents numerous shortcomings. Many times, however, performances results from the art of taking advantage of the rules, not from obeying them blindly. The point is to try, admit when something goes wrong and never give up. As Ludwig von Mises said, "Logical thinking and real life are not two separate orbits. Logic is for man the only means to master the problems of reality".

In Romanian case, all these extensive transformations were attended by several legislative modifications which aimed to create the framework within which the characteristics and particularities of the new accounting system were to be found (Nistor et al., 2009).

8 Limits of Research and Future Researches

In what concerns the identifying of the limits of research we consider that the investigation of just the official documents that have a direct impact on the Romanian public accounting system, could be one of them. Sometimes in the legislative system a law or another normative act that apparently has no relation with the organization and management of the public accounting, may happen to contain amendments that might affect the accounting system if they are applied (for example, the fiscal code).

Another identified limit in using the two theories (Simon's theorem and institutional theory) for the analysis of the impact of legislative changes on the Romanian public accounting system. We intend to discuss in further research other theories with impact on the analyzed subject (for example the Agency Theory, the Stakeholders' Theory and others).

At the end of this scientific desideratum, we realized that many problems appeared and we intend to deal with all these in a future paper. We can mention the study of the decisive factors of change in Romania, compared with those from other countries of the EU.

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