



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 5, Issue 4, 2016

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

The Role of Accounting and Internal Control in Reducing Bureaucracy in the Public Sector

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Abstract. The aim of this paper is to present the relation between efficient internal control and accounting procedures and how the internal control system could play an important role in reducing bureaucracy. Nowadays, the Government accounting and control of public finances are a national and international priority, in context of refugees crisis and terrorist attacks. Modernization of the public sector accounting could accelerate the process of reducing bureaucracy, by implementing accounting information system and electronic signature.

The reform of the public administration in all European countries requires new monitoring techniques and procedures, in order to verify public sector budget and its financial activity. Efficient intern control procedures and managerial responsibility could contribute to a good governance, transparency and low level of bureaucracy.

Keywords: internal control, accounting information, bureaucracy

JEL Codes: M40, M42

1. Introduction

The role of accounting in the modern society is more important than ever, and the professional accountants are responsible for the financial reporting released both for the public sector or a single economic entity. International Public Sector Accounting Standards (IPSAS) are explaining the importance of accounting for a fair representation of the effects of transactions, expenses, revenues and other events, in order to present reliable and accurate information for the public management.

The responsibility for the preparation and the financial reporting may vary from one country to other, but generally, the chief accountant or the chief executive are involved in elaborating the accounting information for the top management. The same way, there are controllers or finance managers who are responsible for approving or controlling the financial statements. Thus, the responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (*IPSAS 1—Presentation of financial statements, p. 37*).

The development of the financial reporting generates bureaucracy in the public sector, because of detailed explanation for the financial position, financial performance and other changes in net assets/equity in the public sector administration. Last decades, the notes of the financial reporting contain a growing summary of significant accounting policies and other explanatory procedures. The bureaucracy is



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growing all over the world in the public administration, and a significant level of bureaucracy could become a negative phenomenon, but could be under control by monitoring internal rules and regulations (Ionescu L, Robertson K, 2016).

We note the growing bureaucracy in the correction of inappropriate accounting policies and rectified financial reporting either by disclosure of the accounting policies used, or by other notes or explanatory material. Thus, the deficit or the surplus for the end of the period could be identified in many reports, as presented in table no. 1:

Table no. 1. The Components of the Financial Statement Including Deficit or Surplus Indicator

| No. | Financial statements components |
|------------|--|
| 1 | statement of financial position; |
| 2 | statement of financial performance; |
| 3 | cash flow statement; |
| 4 | explanatory notes; |
| 5 | statement of changes in net assets/equity; |

Source: Adapted from www.ifac.org/ IPSAS 1—Presentation of financial statements

The various numbers of financial reports is related to the company performance and depending on the users' interest, principles, conventions and adopted accounting rules for determining the results (Ionescu C and Ionescu C., 2016).

Internal control could be an efficient instrument in fighting against bureaucracy in the public sector accounting, by implementing modern procedures and using the internet control. Also, internal control is a crucial factor in ensuring the quality of financial information for the public administration, using the most modern and flexible techniques (Ionescu C and Ionescu C, 2015).

2. The Role of Accounting in Reducing Bureaucracy

The modern accounting methods are flexible and the accounting information is understandable for most of the users in the public administration. Reforming Romanian public sector accounting recorded good results for the financial reporting relevance, reliability and transparency in the last 26 years. One of the most important principles of the accounting reform is *substance over form*, meaning that the substance of transactions or other events is not always consistent with their legal form. But, most of the public servants have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the accounting information. In order to reduce bureaucracy, the accounting information represent faithfully the transactions and other events that it purports to represent, in accordance with their substance and economic reality. Accrual accounting system is a useful instrument to reduce bureaucracy and improve transparency, not only for public managers and stakeholders, but also for employees and general public, who are well informed about the nature of financial and fiscal information provided by the accountants.



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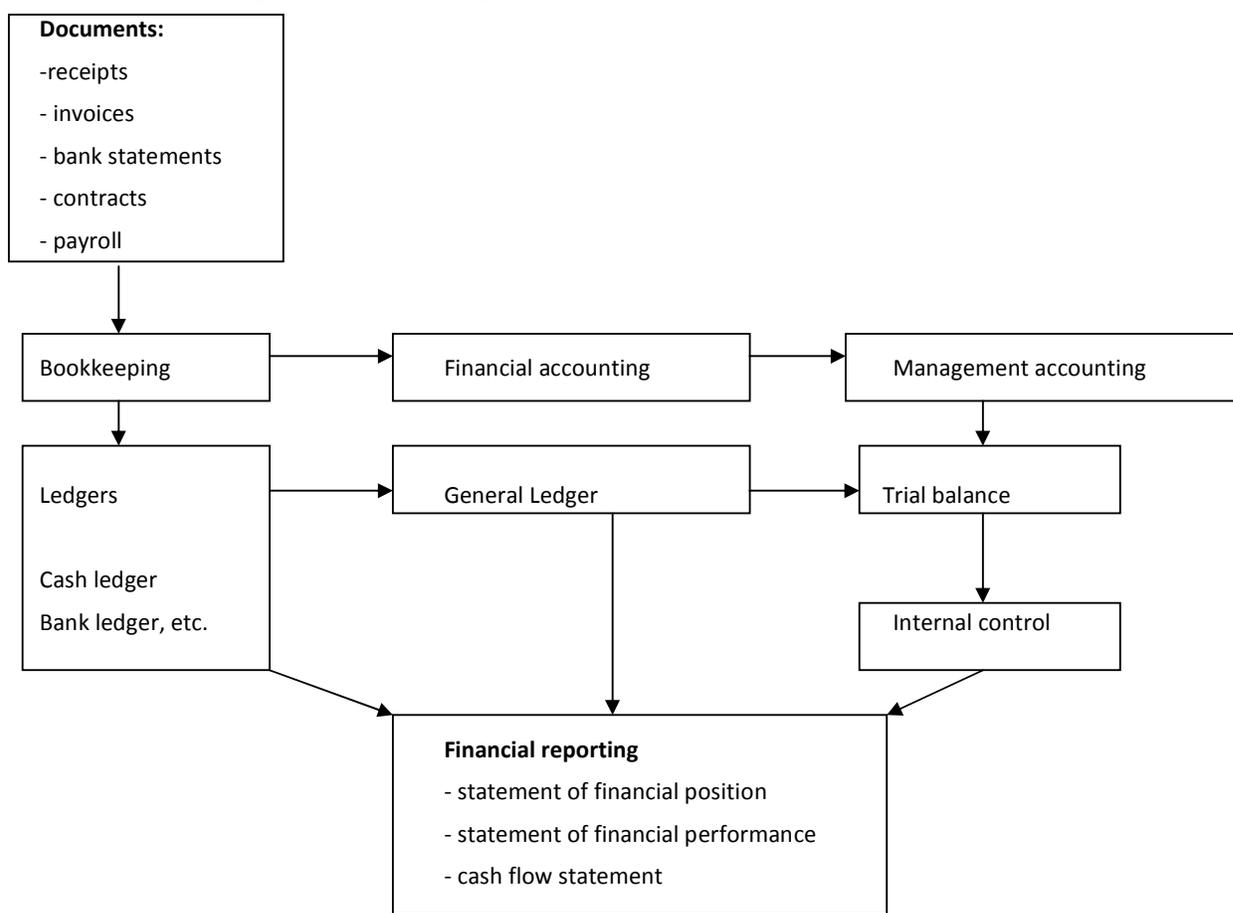
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Eliminate some excessive bureaucracy by reducing the hierarchy of the finance and accounting departments is a priority for the public managers. Thus, last decades we could observe the growing number of professional accountants with good knowledge in the public finance, law and accounting methods. Traditionally, accounting information was build and produced on paper by numerous accountants working in the public administration, sometimes ineffective and inefficient, but in the 21st century, accounting information system (AIS) became an efficient system of collecting, storing and high speed processing financial and accounting data with good results for the public managers. Thus, the financial reporting can be obtained by accounting information system (AIS) inside the public entity or externally with professional accountancy firms and many modules of accounting were developed as: management accounting, cost accounting, financial accounting or internal control. In the figure below we could observe the accounting information system (AIS) in the public administration:

Fig. no.1. The Accounting Information System (AIS) in Public Administration



Source: Author's own work



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The advantages of using accounting information system (AIS) are relevant and important for the public managers and other users, such as investors, creditors, managers, owners, customers, employees, regulatory agencies. The reliability of using accounting information system (AIS) could be identified by: security, confidentiality, availability and integrity of the data base.

A major step in reducing bureaucracy in the public sector accounting is the adoption and implementation of electronic signature in Romania, since 2001. Despite the fact that electronic documents are appropriate for creating, processing, sending and receiving accounting information, for decades in Romania most of the contracts were signed on papers and all the financial reporting was approved and sign by managers on paper with blue ink. Recently, the benefits of using electronic signature were understand and approved by most of the users from the public sector and the private one, as well. According to the Law no. 455/2001, electronic signature means data in electronic form, which are included in, attached to or logically associated with a document in electronic form and serve as a method of identification. The advantages of using electronic signature could be identified in saving time and effort from the public accountants and managers to write, read and copy the financial reports, integrity of the data and authorisation by the qualified managers, confidentiality of the data, automate and streamline reporting. Understanding the benefits of the accounting information system, electronic signatures become best practice for all public agencies in Romania and for the fiscal administration. Thus, most of the financial reporting and the financial statements are verified and approved by electronic signature, then upload on the Finance Ministry's site or other fiscal agencies.

Table no. 2. Reducing Bureaucracy by Accounting

| No. | Accounting techniques |
|------------|---|
| 1 | Implementing accrual accounting system; |
| 2 | Implementing accounting information system; |
| 3 | Adopting electronic signature; |
| 4 | Implementing signature-verification; |
| 5 | Implementing internal control; |

Source: Author's own work

3. The Role of Internal Control in Reducing Bureaucracy

There is a strong connection between accounting and public internal control because of using the public funds, recording expenses and issues of sustainability- economic, environmental and social. In Romanian public administration, the reform of the internal control was developed on the following components: financial control, managerial control, management control standards and managerial responsibility. We present link between these components in the figure below:



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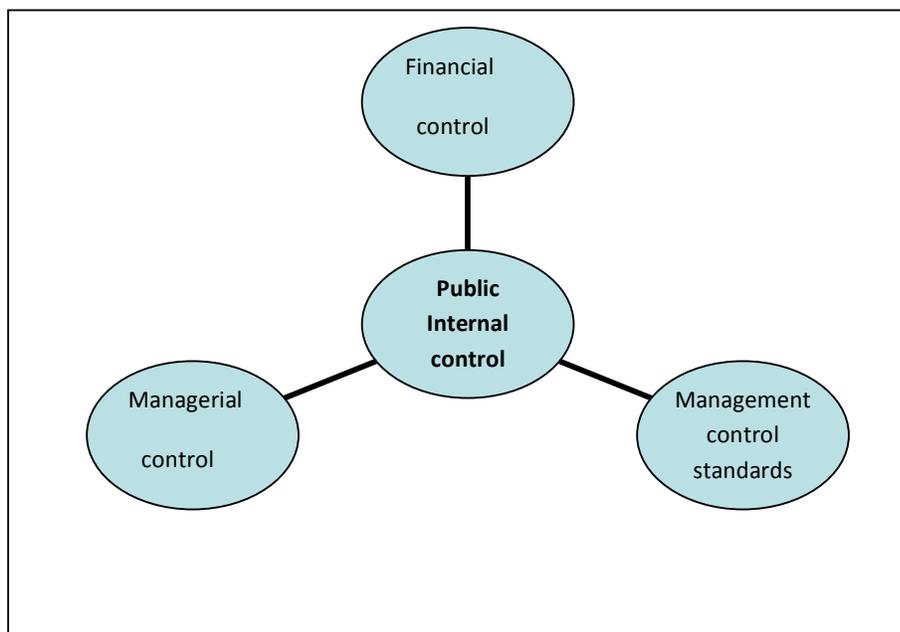
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Fig. no.2. The Accounting Information System (AIS) in Public Administration



Source: Author's own work

The reform of the internal control is very common to all European countries and is part of the new public management. By reforming internal control in public entities, we could reduce bureaucracy and the wasting of public funds, by implementing new procedures and techniques to improve the management process. Causes of bureaucracy are instability of legislation, confusion, poor public management and insecurity of the public servants (Ionescu L, Caloian F, 2014).

According to INTOSAI GOV 9120 (2004), the role of the internal control is to provide a foundation for government accountability and public management control, to prevent theft and fraud, to increase transparency and efficiency in the public sector. There is a high pressure on the public finances and public budget in all European countries, and governments made many changes in the way in which public internal control operates and how it is organised. Internal control could be efficient by following the general objectives, such as:

- protection of the public funds and budgets;
- compliance with the regulations, norms and laws;
- development of the accounting system;
- preventing fraud and corruption;
- implementing new techniques of verifying data and financial information in the public administration.



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In order to reduce bureaucracy in the public sector, an efficient technique is to implement electronic control of the documents, data and financial reporting. Electronic financial administration is available in all European countries, very common in local administration and local agencies. Thus, most of the citizens and companies could apply electronically to request fiscal certificates and statements. The local administration and fiscal administration are organised to provide on-line services to the contributors and to control the electronic files submitted by citizens. The main benefits of electronic control of the documents and electronic administration include: efficiency, accountability and management responsibility, instant access to data base and permanent control.

4. Conclusions

This paper presents some aspects about the role of accounting and internal control to reduce bureaucracy in the public sector and the complexity of the information in the public administration. Implementing accrual accounting system is a useful instrument to reduce bureaucracy and adopting digital signature is an efficient tool to increase speed and efficiency in the Romanian public sector. Electronic financial administration is a modern system to fight against bureaucracy and corruption in the public administration, and implementing new and modern electronic control techniques will prevent fraud, corruption and money laundering.

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