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## THE PUBLIC ADMINISTRATION ACCOUNTING IN THE LIGHT PUBLIC FINANCE MANAGEMENTS REFORM AND CHANGES OF THE NEW ACCOUNTING DIRECTIVE OF THE EUROPEAN PARLIAMENT AND THE EUROPEAN COUNCIL

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The role of public administration accounting is to secure a database of relevant information essential for the management of public finances and need for presenting of operations results of our country within the European Union (EU). The accounting of public administration entities should provide a true and fair view on the assets and liabilities, as well as the financial situation and the use of public appropriations. After the entry of the Slovak Republic (SR) to the European Union (EU) the International Public Sector Accounting Standards began to be applied in our legislation. They provide a uniform basis for the data consolidation as well as more efficient information for the economic decisions of individual users.

**Keywords:** accounting, International Public Sector Accounting Standard, harmonization, accrual principle

The principal part of Gross Domestic Product (GDP) is presented by the activities of public administration bodies in all economics of the EU. Therefore, it is notable to administrate them effectively. The government is responsible for their administration to citizens, their deputies, investors, stakeholders, and other interested parties.

The accession of the Slovak Republic to the European Union brought the possibility of utilizing the positive effects of free movement of goods, services, capital and citizens, and on the other side the necessity to respect regulation and legislation adjustments in all areas of the internal market of the European Union.

Persistent strengthening of international integration is taking a global dimension, affecting the need for the information comparison, but mostly the same view on the assessment of various entities operations, enabling precise sophisticated scientific discipline presented by the accounting, which is richly developed, clearly defining structure intended to provide a true and fair view on the assets, its resources, liabilities and results of organizational units, and financial situation (Štangová, Výchová and Hajdúchová, 2012).

The accounting of state and local governments takes its place in the development of accounting from ancient times to the present (Kovalčíková, 2010).

Specificities of the accounting and reporting of state and local governments result from the financial regulations of public administration. The accounting system of public administration applied in the Slovak Republic is based on the accrual basis. The use of program funding and the European methodology ESA 95 are hardly conceivable without the implementation of accrual accounting in the International Public Sector Accounting Standards (IPSAS) (Ciernik, 2008).

International Public Sector Accounting Standards (IPSAS) form the basis for the harmonization of accounting of public sector subjects and the gradual alignment of the financial statements' content (Kršeková, 2011).

### Material and methods

Even today the public administration accounting including the financial statements have many common features with the accounting of other entities in its development, but also its peculiarities reflecting the foregoing facts. It is the only generally accepted information system providing the true and fair view on information. The public administration accounting is based on the accrual basis. Except for the above mentioned facts, it enhances the transparency, responsibility and comparability of financial reporting in public sector and may serve for increase in efficiency and effectivity of public audit.

The article presents the specificities of public administration entities' accounting in the Slovak Republic in the context of public finance managements reform and changes to the new accounting directive of the European Parliament and the European Council.

The materials are presented by literary resources and legal regulations. The methods of analysis, selection and comparison of specific provisions were applied pursuing currently effective accounting regulations for public entities.

### Results and discussion

Public sector is determined in our legal environment by the Act No. 523/2004 Coll. on budgetary rules in public administration on the amendment to certain other acts as amended (hereinafter the Act on budgetary rules in public administration). Under this legal regulation, the public sector is created by state with its state budgetary and contributory organisations, and other entities registered in the government with their established budgetary and contributory organisations and other entities registered in the registry of public sector entities pursuant to the Act

No. 69/2012 Coll. on state funds, public high schools and social insurance companies.

In the Slovak Republic, the reform of public finance management is implemented; its aim is to enhance the budgetary efficiency of public expenditure management and financial management of government activities. The basic assumption for obtaining the objectives of public finance management reform is the existence of information that is relevant, reliable, sufficiently accurate, comparable, and understandable and provided on schedule. Accounting is the source of the above characterised information.

The accounting presents relatively closed and internally organized information system. It plays a crucial role in the information and management system of an accounting unit. The accounting might be characterised as the most complete system of economic information in monetary units. It shall record them accurately and reliably. At regular intervals, it provides them to users for decision-making. The information users are also groups of interested parties who make decisions in relation to particular entities. They require information on a particular entity to be corresponded to reality and to be useful for them. The information usefulness is characterizing by its properties, called the qualitative characteristics of accounting information. The information usefulness is also assessed in terms of its significance. Information is considered to be significant if its omission in the financial statements or a misstatement could influence the judgment or decision of a user. As well, it must be comparable over time (i.e. for each accounting period), in the space (i.e. for individual entities in the Slovak Republic, in the European Union and worldwide) and must be transparent.

All accounting entities recording in double entry bookkeeping shall follow a generally accepted principle in a market economy, and that is the principle of true and fair view on the facts that are subject to the accounting. This principle overrides to all other accounting principles. The lone subject of accounting is defined as:

- the bookkeeping of information (accounting transactions) on the balance and movement of assets, on the balance and movement of liabilities, the difference between assets and liabilities, income, expenses, revenues, expenses, profit of an entity;
- the reporting of accounting transactions (referred to in the preceding paragraph);
- the bookkeeping of other assets and other liabilities in the financial statements.

In the Slovak Republic, the legal act adjusting the accounting of all accounting entities, including the public administration entities, is the Act No. 431/2002 on Accounting as amended (hereinafter "Act of Accounting").

As regards accounting terms, state administration constitutes state budgetary organizations, state contributory organizations and state funds. The local administration is composed of municipalities, higher regional units, budgetary organizations established by municipalities and autonomous regions, contributory organizations in municipalities and higher regional units. These accounting units record transactions in the double entry bookkeeping arising from the budgetary principles of public administration.

The implementing regulations for the public administration entities in the double entry bookkeeping are following:

- Measure of the Ministry of Finance of the Slovak Republic No. MF/16786/2007-31 laying down the detail of accounting procedures and framework chart of account for budgetary organizations, state funds, contributory organizations, municipalities and higher regional units as amended.
- Measure of the Ministry of Finance of the Slovak Republic No. MF/25755/2007-31 which stipulates the details of the layout, designation and content specification of individual financial statements items and the scope of disclosure of financial statements data by budgetary organizations, contributory organizations, state funds, municipalities and higher regional units as amended.
- Measure of the Ministry of Finance of the Slovak Republic No. MF/20414/2007-31, which stipulates the details of the layout, designation and content specification, manner, terms and the disclosure place of accounting information and data needed for the purpose of performance assessment of budget in public administration as amended.

The financing of public administration entities is stipulated in the current Act No. 583/2004 Coll. on budgetary rules in regional self-government. The budget is considered as the main tool for management and generally presents:

- Fundamental financial plan of creation and utilization of cash.
- Plan of receiving and utilizing of cash for certain economic period.
- Cash fund.

The budgetary classification, according to which uniformly determined and classified revenues and public finance expenses, including their content definitions and financial transactions in financial assets are applied in the process of monitoring the implementation of the public administration budget and in the movements of financial assets. The budgetary classification consists of a generic classification, organizational classification, economic classification and functional classification. Functional classification is used mainly for the purpose of international comparisons of public administration expenses in accordance with the function of public administration; functional classification is stipulated by the specific regulation. Generic classification, organizational classification and economic classification is stipulated by the measure issued by the Ministry of Finance which announced the notice about its publication in the Collection of Laws of the Slovak Republic.

After the approval of the Act No. 493/2011 on budgetary responsibility, the proposal of budget includes the accepted budget for the financial year and as well the data about the expected present of the financial year.

In individual budgetary years the budget of public administration pursuant to the uniform methodology valid in the European Union is created by:

- accrued income and accrued expenses of public administration,

- budgetary relations in public administration and financial relations with other entities,
- deficit of public administration budget or surplus of public administration budget.

The public sector is characterised by the following specificities concerning the influence on the accounting and the financial statements:

- Budget is the basic management tool (the Act on budgetary rules in public administration and the Act No. 583/2004 Coll. on budgetary rules in regional self-government and on amendment to certain other acts as amended).
- Analytical evidence for monitoring of capital and current expenditures and financial operations according to economic classification is obligatory in accounting.
- Some entities calculate the profit/loss of budgetary management.
- Accrual system is implemented in the system of accounting management, it is the fundamental principle of double entry bookkeeping. It is established on the fact that an accounting unit records its expenses and revenues in the accounting period in which they have occurred regardless the date of their payment or the date of another settlement.
- Budgetary system requires the simultaneous monitoring of expenses, expenditures, revenues and incomes.
- Since 2008 the entities of public administration have been calculating the profit/loss as a difference between revenues and expenses.
- Accounting transactions are specific – transfers, provisions, allowances and closing accounting transactions.
- Specific accounts and extensive analytical evidence to bank accounts, receivables and liabilities are selected for transfer monitoring.
- Content and accounting arrangement of profit/loss of budgetary management and profit/loss is required.
- Specificities of individual and consolidated financial statements and aggregated statements (Fabian, 2014).

Pursuant to the Act on Accounting, the accounting of an accounting entity is complete if an entity has recognized all accounting transactions in the books for the accounting period and for this period it has prepared the individual financial statements, the consolidated financial statements if it is obliged to prepare it, it has issued an annual report or consolidated annual report, it has published data, it has archived documents and it has got accounting records about all of these facts.

State budgetary organizations including the administrator of the state budget capitol, state contributory organizations, disclose the data of financial statements, followed by Balance sheet and Profit and Loss Statement in the information system of State Treasury. The same is applied by higher regional units and budgetary and contributory organization established by municipalities. The disclosure of the financial statements, Balance Sheet, Profit and Loss Statement by municipalities and budgetary and contributory organization in their administration is realized by means of the application software AZUV.

All accounting units of state administration and those accounting units of municipalities which are included

in the Central consolidation system deliver the Notes by means of the Central consolidation system's portal. Those municipalities not included in the Central consolidation system, as well budgetary and contributory organization established by them, deliver the Notes by means of DataCentre using the program equipment AZUV.

Since 1 January 2014 all accounting units are obliged to disclose their financial statements to the Financial Administration. With the new portal all other state institutions receive such information without asking them from individual business entities.

The Registry of financial statements is the information system of public administration. DataCentre delegated by the Ministry of Finance of the Slovak Republic is the administrator of the Registry. Another advantage of the Registry is the data access to the public increasing the transparency.

The Registry of financial statements consists of two parts:

1. Public part – the access is granted to each subject by means of web [www.registeruz.sk](http://www.registeruz.sk). The documents of business entities, cooperatives, state entities, budgetary organizations and contributory organizations, municipalities, higher regional units, the subjects of public administration stipulated by substantive legal regulation will be presented in the public part.
2. Non-public part – the National Bank of Slovakia and the subject of public administration has got the only access. The documents of natural persons (entrepreneurs), church and religious institutions, civic associations, interest groups of legal entities, owners' associations and business premises, professional associations, offices of foreign banks and insurance companies and others will be presented in the non-public part. The entity to which the archived documents are related may have an access to these documents on request by the registry administrator – DataCentre.

The List of the Registry content:

- Ordinary individual financial statements.
- Extraordinary individual financial statements.
- Consolidated financial statements.
- Aggregated financial statements of public administration.
- Statements of selected data from financial statements.
- Audit reports.
- Individual annual reports.
- Consolidated annual reports.
- Annual financial reports pursuant special regulation.

Documents are archived electronically or in paper form to the Registry. The amendment of the Act No. 352/2013 Coll. increases the number of accounting units as well as documents to be archived electronically. The subjects of public sector deliver documents electronically to the administrator of the Registry. Methodological guidelines determine the details of individual documents delivery by the groups of entities and by archived documents.

Municipalities and higher regional units from the subjects of public sector are obliged to prepare individual

annual report. The obligation to prepare consolidated annual report is set on the administrators of capitols, municipalities or higher regional units. If the content of annual report is changed by an accounting unit after the archiving in the Registry, the new annual report shall be archived without undue delay.

Accounting units of state administration and municipalities included in the Central consolidation system archive the consolidated financial statements of an accounting unit of public administration to the Registry by means of the Central consolidation system's portal.

The municipalities not included in the Central consolidation system archive the consolidated financial statements of an accounting unit of public administration and other documents to the Registry of financial statements by means of DataCentre using the program equipment AZUV.

For those accounting units obliged to prepare individual annual report or consolidated annual report the term of annual report archiving (individual as well as consolidated) in the Registry is determined, no later than one year from the end of the financial year for which the annual report is prepared. In order to eliminate the duplicity, the Act on Accounting enables the archived annual reports not to be containing the financial statements and the audit report provided that these documents have already been archived in the Registry as separate documents.

For the first time annual reports prepared as at 31 December 2013 have been archived in the Registry, which have been prepared at the earliest from 1 January 2014 and have been archived in the Registry not later than 31 December 2014.

The enhancement process of public sector system and the local government as well required the change and improvement of current budget economy's system and the adjustment of public sector and self-governance accounting in order to response to new legal regulations and conditions resulting from the accession of the Slovak Republic to the European Union.

Harmonisation of accounting and reporting of state and public sector on accrual principle is a common trend in the European Union while the Slovak Republic acceded to implement accrual accounting and International Public Sector Accounting Standards (here inafter "IPSAS") in our legislation.

The accounting harmonisation presents the process of approximation of accounting principles, methods, balancing and mainly the content of financial statements of individual countries so their comparability and transparency is secured for users of financial statements all over the world. Approximation process of national accounting systems is gradually leading to the creation of international accounting.

IPSAS are currently the only internationally recognised set of accounting standards for public sector. These standards are based on International Financial Reporting Standards (IFRS) applied in private sector. Currently, IPSAS contain 32 standards based on the accrual accounting system and one standard for cash-based accounting.

They provide a uniform basis for the data consolidation in the public sector, from which the statements are

subsequently prepared in accordance with ESA 95 and GFS 2001. In 2004 the International Monetary Fund, Eurostat and IFAC began a harmonization project aimed to the approximation of various methodologies (GFS 2001 ESA 95 IPSAS) in order to secure insignificant differences occurring in the reporting.

Since 1 January 2005 the European Commission began to record and to recognize all transactions on accrual basis in accordance with International Public Sector Standards using modernized accounting system.

Since 1 January 2008 accounting entities of public sector in the Slovak Republic have been recording according to the new accounting methodology. The basis of the new accounting and reporting methodology is the adoption of International Public Sector Accounting Standards, which include the implemented accrual principle. Those generally accepted standards have not been applied as a complex adjustment of methodology (like International Accounting Standards / International Financial Reporting Standards IAS / IFRS in the accounting of business entities).

International Public Sector Accounting Standards Board (here inafter "IPSASB") is currently developing the project of Conceptual framework for financial reporting of public sector entities. Conceptual framework of IPSASB relates to financial reporting of public sector entities using IPSAS including national governments, regional governments, local governments, governmental resorts, departments, programs, boards, commissions, agencies, public social security funds, trusts and statutory bodies as well as international governmental organizations. Created concepts support the financial reporting of those public sector entities which apply accrual basis of financial reporting. Financial statements for general purposes present an essential part of a transparent financial reporting of governments and other public sector entities. The purpose of financial reporting of public sector entities is to provide users of financial statements for general purposes with necessary information about the entity for accounting purposes and furthermore for purposes of resource allocation and accepting of political and social decisions.

### Conclusion

Harmonized accrual accounting in the public sector provides a solid basis for understanding the economic situation and functioning of governments and government entities at all levels. Superiority of accrual principle is indisputable, both with respect to macroeconomic, microeconomic and fiscal monitoring. At the level of individual subjects accrual principle brings advantages in terms of transparency and accountability, as well as the quality of decision-making, because the available data reflect all relevant costs and benefits in a comparable manner. In addition, the prospect of further fiscal and budgetary integration in the EU underlines the need for harmonized standards for the public sector in favour of budgetary decisions at the national level assessed at the EU level. Public entities should report public appropriation, functioning in complete and comparable form in relation to the interests of accountability and transparency.

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