

# ROMANIAN ACCOUNTING HARMONIZATION WITH THE EUROPEAN DIRECTIVES AND INTERNATIONAL ACCOUNTING STANDARDS-BETWEEN NECESSITY AND CONSTRAINT

B. COTLET, D. COTLET, O. MEGAN, A. MIOC

WEST UNIVERSITY, FACULTY OF ECONOMIC SCIENCES AND BUSINESS ADMINISTRATION

**Abstract:**

*The economic, political and social reality from the last years at an international level brought on the first plan a special group of different countries of the world on spheres or influence zones, so we will have the two different accounting systems, the continental system and the Anglo-Saxon system, each one based on different principles. Because of the differences of the systems, was needed and wanted to be a harmonization between them, so will be a common system, and a same language of accounting.*

**Key words:** *Harmonization, Convergence, accounting system, accounting standards*

**JEL classification:** M41

The economic, political and social reality from the last years at an international level brought on the first plan a special group of different countries of the world on spheres or influence zones. From this share did not make exception neither the accounting domain, where numerous authors (Frank, Mueller, Da Costa, Bourgeois, Lawson, Doupnik, Salter, or Feleaga) grouped the accounting systems on diversified categories or influence spheres.

Having a view at the actual tendencies on the international market of the accounting information and making a synthesise of the major influences through the financial reporting from the principle-developed countries, the accounting systems can be group like this:

- accounting system specific for the Anglo-Saxon countries
- accounting system for rest of the world countries

The principle characteristics of the Anglo-Saxon countries are the system based on the common law, a weak influence of taxation through the financial reporting, financial markets that represents a principle element of the financial system and a professional frame of the accountants, strong and good contoured.

In the second category of countries are Japan, France, and Germany which have a legally system based on the roman law, a big influence of taxation on the accounting system and financial reporting, a smaller importance of the financial markets into assure the enterprises financials and an accounting profession not so influenced and strong.

Romanian accounting system was placed into the European group with other countries like France, Italy, Spain, and Portugal in principle because of the historic-cultural valences that attached Romania to this zone of the world. A preponderant existence in the accounting sphere of the roman law elements, the connection of a long period of time or the preponderant finance of the enterprises on the bank market, in the capital market detriment are also clear proves of the powerful connection of the Romanian accounting to the continental system, which had the best exponent the French accounting.

The appearance and the development of the free regional markets and opened to the direct foreign investments and commerce between the zones of the respective country, after second half of the 80<sup>th</sup> years ,brought to the necessity of a legislative harmonization ,which objective was to create a prior medium for developing the businesses in the respective zone. The best examples in that case were the European Economic Community (ECC), North American Free Trade Agreement (NAFTA), or Association of South East Asian Nation (ASEAN), which with a zonal cooperation assured an individual development of the respective country.

The cooperation extend of course into the accounting domain through the efforts to escape from the major existent differences between the accounting systems of the countries, of who's logical consequence was the accounting harmonization phenomenon.

**International accounting harmonization** is a process in which the norms or the national standards, different from one country to another, sometimes divergent, are improve to be compare. It constitute an expanded necessity from the users demand to inform from the financial situations. Through harmonization, the different accounting systems are gathering to a common denominator, deleting the methods that are not recommend, harmonizing a big part of them, and using many alternatives in the irreconcilable situations. It implicate so a process of conciliation between different points of view, and from different point of accounting practices.

After the accounting reform from 1190 that had like objective to create a pliable accounting system on a transitory economy at the market economy, year 1996 constitute the shuffle that pushed the Romanian accounting boat in the international accounting harmonization waves, started by the International Accounting Standards Committee (IASC).

Romanian state implicate actively to realize the harmonization of the accounting system with the European directives and International Standards by concluding an collaboration protocol with ICAS (Institute of Chartered Accountants of Scotland) to assure a specialty assurance in the process of Romanian accounting harmonization..

In some opinions, determined by the decision to reform the Romanian accounting system since that period was the necessity of taking some measures (including the accounting domain) which could help Romania and the economy to develop and to integrate in the European countries group. Therefore, at a national level was figuring that through the implementation of the harmonizing process:

- will be created the premises of attract foreign investments
- will be reduced the costs of the Romanian companies which are looking after finances on the international markets in accounting information elaborations
- is created a better frame for developing the capital markets from Romania
- the commercial barriers and the international monetary fluxes are decreasing
- will be created a better frame for a future implementation of the European directives in the hope of adhering to the European union

In this way it can be said that Romanian wish, to adhere to the European Union it can be realized only in special conditions, and one of them is the Romanian accounting harmonization with the European legislative from the accounting domain..

With all of the changes, Accounting Law number 82 modified and republished, represents continue the support of the Romanian accounting changes, because are applied in collaboration with other accounting standards grouped in:

- ``Accounting standards harmonized with the 4<sup>th</sup> Directive of the European Economic Communities and the International Accounting Standards``

- ``The general framework to complete and present the financial situations elaborated by International Accounting Standards Committee``
- ``International Accounting Standards and Financial Reporting``
- Professional Guides

These standards have the meaning on one way to attenuate and to make easier to assimilate the impact of new accounting thoughts that are imposed by these standards over the classical conception, and on the other way to attention that on this time, the accounting conception is one-step in front of the fiscal mechanism.

### **Considerations regarding to the future of financial reporting in Romania**

The quality of the financial reporting, which implies in a direct mode International Accounting Standards and Audit, like a legal frame and institutional of implementation of these standards, represents a scope in itself. The final scope is to bring a plus of value to the financial reporting system and economic grow in the private system.

``The importance of continuing the reform into the accounting domain is supported by the experts from the International Bank, which in period 2002-2003 realized a evaluation of the standards and existent accounting practices referring to accounting and to the financial audit of the financial situations, with the scope to identify necessarily reforms to make a better financial report for the private sector. Recommendations resulted in that period were included in the Report regarding the respect of the standards and norms (ROSC). ROSC program and its component for accounting and audit take part from the initiative to make stronger the international financial architecture. Financial scandals from United States of America, Italy, Holland, and the economical crises that started in Asia and South America are the prove of sub estimation the importance of the pillar which represents international accounting standards and audit. Romania had situated in the group of the pilot-countries that unfurl ROSC program for accounting and audit.`` (O Megan, 2003, pg 189)

``International Bank evaluation, presented in ROSC report about accounting and audit shows the progress registered in Romania in the last ten years. The report presents also couple of recommendations regarding the base politic, some of this viewing:

- To align the laws and the standards to the international ones
- Financial reporting of the loan institutes, assure companies, and pension funds
- The publish of the consolidated financial situations
- The supervision of accounting and audit
- The independence of the Financial Auditors Chamber (CAFR) of Romania and a twining accord for (CAFR) to continue the knowledge transfer and
- Professional practice

At the chapter with pluses registered, it can be said are following advantages:

- The adoption of some measures to eliminate all of the discrepancies and conflicts between Romanian legislation, European Union legislation in the accounting domain and the audit. Most of this problems were identified and will be operate in legislation until the end of 2006

- IFRS are in present adopted on a very large scale in legislation. All the Romanian entities with special reporting will start report using IFRS after the exercise from 31 December 2006 is closed. Is expected for the permitted flexibility by the European legislation to determine a reduced number of entities, considered important to be included in the category of the entities of public interests. For small societies, Romanian legislation is aligned to the European Union directives ,like the Fourth Directive and the Seventh Directive

- Were registered progresses in the realization of quality translates of basic materials
- Were registered progresses in the financial reporting, the bank sector being prepared to elaborate financial situations after IFRS at 31 December 2006, in time that the assurance sector must put still efforts in this sense.
- The capital markets is passing through significant changes, the new capital market being aligned to the international legislation in domain
- The Financial Auditors Chamber of Romania took some measures to make public the new procedures regarding the quality control through the activity of the financial auditors. Is realized an annual inspection for each financial auditor of the listed entity, and an inspection at each two years for the rest. Has been make significant progresses into assure the respectability of financial auditors regarding to standards applicability and ethic, and about the independence demand. IFAC code was adopted with no reservations. `` (D. Cotlet, 2005) The integral adoption of the IFAC code and introduction regarding the quality control of audit determined significant progresses regarding the structure of CAFR. Inspections regarding the quality control, followed by an established process in collaboration with ICAS and DFID, are operational and are waiting, like the inspections from this year to have like result many sanctions applied, including the suspension of the right of executing the financial auditor profession. If looking at the independence in appearance, the only exception possible is a member who takes part from the MFP management and has a vote from the total of fifteen.
- The academically community is having a well-defined position to send the theoretical notions. It remains the important aspect of an practical apply of the standards, determined being the case studies and the practical experience. Also even the Financial Auditors Chamber of Romania representing the financial auditors from Romania, and CECCAR (The Body of Experts Accountants and Licensed Accountants in Romania) representing accountants from the public practice, have procedures for accreditation and personal programs for continue professional training which contains this standards. The Body of Experts Accountants and Licensed Accountants in Romania (CECCAR) put in all the country for all of the members, even if they do not take part from CECCAR to their disposition all its programs

``IFRS adoption is an ambitious objective for a country like Romania, with a recent experience into applying in practice accounting standards and audit. Signing the adhering treatment with the European Union furnished to the Romanian Govern the possibility to access into a conceptual frame that contains everything for the reform in the accounting domain. This conceptual frame is presented by the communitarian acquis and is concentrated on all the activities of strategically reform and institutional. Communitarian acquis includes the primary and secondary legislation (pacts, directives, decisions, and recommendations) and case studies. In globalization conditions and of European legislative dynamics, European Union rules are in a continue change, communitarian acquis being not a static document, just a document that know all the permanently solutions. `` (D Cotlet, 2005)

## **BIBLIOGRAPHY**

- BARI I, *Globalizare si probleme internaionale (Globalization and international problems)*, Ed Economica, Bucharest, 2002**
- CALU D, *Istorie și dezvoltare privind contabilitatea din România( History and developing regarding accounting from Romania)*, Ed Economica, Bucharest, 2005**

**COTLET D.**,*Situatiile financiare prin prisma standardelor internationale( Financial situations from the international accounting standards point of view)*,  
Simposium,Economical Days,2001

**INEOVAN F.,MEGAN O.**,*Standardele Intenationale de Contabilitate,cea mai buna reteta,(International Accounting Standards,the best receipt)* ,Simposium,  
Management and the economy of transformation,Timisoara,2002

**MEGAN O.**,*Globalizare si normalizare(Globalization and harmonization)*,2003