

# THE ROLE OF FINANCIAL- ACCOUNTING SYSTEMS OF EUROPEAN PUBLIC UTILITIES SERVICES

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## **Abstract:**

*For the efficient management of the public services, their operators, regardless of their organizational form, must have a financial and accounting informational system designed and structured in such a way to meet the informational requirement of the management process. The analysis of this system is carried out in order to highlight the essential features regarding the informational circuit, as well as the role and position occupied in the functional structure of the operators of public utilities services. The research methodology is to observe the specific activities of the operators of public utilities and their influence on the informational system. Here are presented the information provided by the financial-accounting system, as well as their users, focusing on the usefulness of accounting information in the management process and the regulation and monitoring process. The main objective is to highlight the importance of financial-accounting information in the strategy of sustainable development of European public utilities. The results of this analysis, mainly focuses on the role of the financial-accounting information in the management of the operators and in ensuring a strategy regarding a sustainable development of the European public utilities services.*

***Key words:** informational system, financial-accounting system, informational circuit, public services operators, sustainable development.*

***JEL Classification:** M41*

## **Introduction**

In order to increase the public sector's efficiency and, in particular of the public utility services, there was and still is, in the developed and in the process of development countries, a trend of pass these services in the private sector, considering that a private management is far more efficient (Hopper and Hoque, 2004, p. 1-18). Another phenomenon that has led to a change in the accounting of these services has been the corporatization that led to the awareness of the managers from the public sector on the financial efficiency of public utilities services (Davie, 2004, p. 333-358). In Romania there is a trend to externalize the public utility services, but as for the district heating plants or the district water supply and sewerage, it is not preferred to lose control over the operators in these fields. The result of this is that the Romanian operators are usually organized as autonomous or partial or full state-owned companies.

Do these public utility operators have to have an informational financial-accounting system that needs to meet the requirements that are specific for the activities they do, or is there possible to implement a financial-accounting system that is common to other general areas of the economy? This is the question at which we are trying to find an answer through this work. In this respect there is a high importance of the flow of information from the moment of producing a phenomenon in a process until, on the basis of knowing it, a new event is being triggered (Matiş and Căndrea, 2005). The literature also states that an informational system is created and develops along with the activity that it

reflects. Taking into account the dynamic nature of the economic system, in an objective way the informational financial-accounting system has to be in a continuous adjustment and improvement to meet the requirements from the field of public utility services.

The operators from the public utility field, especially those who manage sanitation or wastewater treatment services, must also keep the books related to the environment. This is part of the managerial accounting, but it must be served by a separate informational system (Gao, 1995, p. 108-114). The environmental accounting is associated with the term of eco-efficiency, and the main feature is presenting the information related to the environment separately from the financial information related to the items presented (Schaltegger and Burritt, 2000).

This paper represents a study of the organizational structure and of the financial-accounting systems of the public utility services operators, as well as of the financial statements but especially of the accounting policies specific to the activities in this field. Referring to the financial statements, the literature is very rich, given the fact that the access to the information related to external reporting is easier compared to the access to information related to internal reporting (Richards and Gladwin, 1999, p.11-21). Thus, the data on monitoring and internal reporting are very difficult to obtain, which affects the elaborate study of environmental accounting as part of managerial accounting of the public utilities operators (Simons, Slob, Holswilder and Tukker, 2001, p. 51-61).

Although very different in terms of quality, environmental reporting and accounting is growing and have resulted in the issuing of useful reports to shareholders and other interested parties (KPMG, 2005).

### **The place and role of the informational financial-accounting system among the community services operators**

The financial-accounting information plays an important role in the management and reporting of public utility services operators (Nor-Aziah and Scapens, 2007, p. 209-247), but its role is different and is very difficult to assess and there is a conflict in this respect, between the public and private sector (Potter, 2002, p. 69-93).

The structure of the financial-accounting system of the public utilities services operators is similar to the accounting system in the sense of a general accounting plan, at which several characteristics generated by the informational requirements appear, related to management and regulation, as well as to the requirements of managerial decision (Haiduc, 2005). This way, we start from the complex and complete structure of the financial-accounting system that comprises:

Generalities:

- general provisions
- book-keeping terminology
- chart of accounts

General accounting (financial):

- rules of determining the assets and the financial results
- operation of general accounting accounts
- documents of accounting summary

Analytical accounting of operation:

- operations taken from the general accounting
- exclusive operations of analytical accounting

The informational financial-accounting system also represents a source of information for the economic and financial analysis, which are useful to the decision-making factors, namely to the shareholders, stock-holders or interested parties outside the company, such as:

banks, insurance companies, assessors, etc. In its turn, the informational financial-accounting system uses information which comes from other informational spheres of the operators: sales, rendered services, provisioning, personnel, finance, etc. The data processing component of the informational financial-accounting system has the role to provide and process accurate information, in a timely manner, for all authorized users, regardless if they are decision-making factors or not (Turnerand and Weickgenannt, 2009, p. 648). The data processing financial-accounting system should be able to automatically retrieve data from other systems.

The architecture of an informational financial-accounting system of a public utilities services operator must necessarily include the analysis of the activities that take place within this system, how to supply information and the recipients of the information provided by the informational financial-accounting system as in figure no.1. witches presents a schematic diagram of the context in which the informational financial-accounting system works.

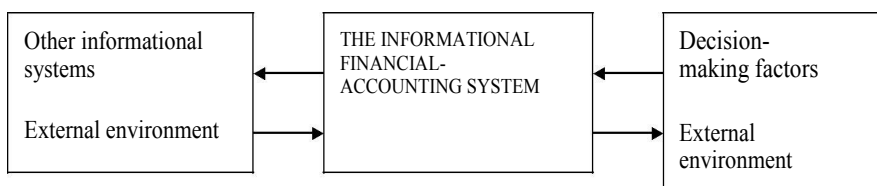


Figure no. 1

The activities carried on within the financial-accounting system are numerous and complex. Most of these activities revolve round the accounting operations, constituting the basis of the informational system.

The accounting operations form the financial vision upon the activity of the operators, through the means of the accounts, which means that almost all the information resulting from this informational system are obtained from taking over the information from the accounts. These accounting operations can be: operations based on documents in proof (invoices, statement of account, receipts, etc) and operations generated on the occasion of monthly/annual closure of certain accounts (Mateş, 2006).

In the context of the existence of an informational integrated system, some accounting operations may be generated automatically or semi-automatically, by taking over from other existing informational systems within the company: production, provisioning, sales, human resources, etc. Thus, in order to have a powerful informational financial-accounting system, this one must be analyzed, designed and implemented only in conjunction with the other components with which it interacts within the company, utility or institution that manages the public utilities. The purpose of registering the accounting operations is found in the following informational outputs (Mateş, Pereş, I. and Pereş, C., 2005):

- Basic financial accounting reports: account records (analytical, synthetic), trial balance (synthetic and analytical), account books, statements of income and expenditure, paid and received cash flows; the informational system must be organized in such a way that these reports to be available at any time and for any period;
- Reports of summary accounts: balance sheet, profit and loss account, other financial statements;

- Reports of monthly, quarterly and annual closing of certain accounts: declarations of VAT, income tax, other statements regarding the state debt;
- Charts on the dynamics of expenditures, revenue and other accounting components which lend themselves to graphical representation;
- Analysis of accounts to capture certain states of economic and financial indicators;
- Further analysis and reports.

An important element of the financial management is the control through budgets, a very important control in the case of the operators with majority state capital or of the autonomous administrations and of the specialized departments within local or county public authorities. This control involves the design of anticipated revenue and expenditure budgets, as well as monitoring compliance. Tracking them is reflected in the calculation of indicators to highlight deviations from budgets, but also positive related phenomena, such as: lower expenses than those projected, higher revenues than those anticipated, etc. Budget tracking is also done with the help of general accounting, this one being the provider of real information, with which the forecasts made by budgets are compared.

### **Conclusions**

The complexity of the activities of public and community services, the nature of services, the limitation of resources while increasing and diversifying the demand for quality services, represents the premises of defining and measuring the concept of performance in public utilities field. Through the constructive research, the problem of defining, measuring and scattering the performance of financial-accounting systems of the public utilities operators has been structured, at national and international level, being identified the statements of the concept of informational performance in literature.

The financial-accounting system has to be interconnected with all other systems of the public utility services operator in order to provide different reports useful for management decisions, reports that contain combined information both financial and technical or related to the operational activity. The British users of the information provided by the financial statements and specific reports put an emphasis on the financial implications of the different measures and investment plans, as well as of the current activity carried out within a certain period of time.

At European level, there must be a strategy regarding the sustainable development of public utilities services, as a vital component of the economy with a decisive role on the life of European communities and at the basis of this strategy there must be other information provided by the integrated financial-accounting and technical systems of these.

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