

# Suitability of EPSAS for the government accounting system in Poland

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## Abstract

The paper is devoted to the analysis of the possibilities and ways of putting future EPSAS into Polish government accounting system. In Poland for decades the accounting and reporting of central and local government entities are relying on the accrual convention and the double record, whereas the accounting and reporting of budgets are leaning on the cash convention, also with the double record. So, implementation alone EPSAS by entities should be relatively simple. However, probably, more attention and efforts will be needed for the transformation and development of adequate reporting infrastructure. The article is introducing the current system of Polish government accounting and reporting as well as is outlining a potential way of transforming it under the angle of future EPSAS introduction.

## 1. Introduction

The progress of works of the European Commission on EPSAS establishing is inducing to deepened reflection over their compatibility to currently functioning national systems of accounting and reporting, and over approach to their implementation in Member States. This approach will have to take into account the EPSAS nature and the current situation in the given country as to the public finance sector financial and budgetary accounting and reporting. In the article these issues were presented and discussed on the example of Poland. The prospects for the implementation of EPSAS in Poland are quite well for public finance sector accounting is traditionally based on accrual convention and double recording. The method applied in this paper is of descriptive-analytical character.

## 2. Public finance and the public finance sector in Poland

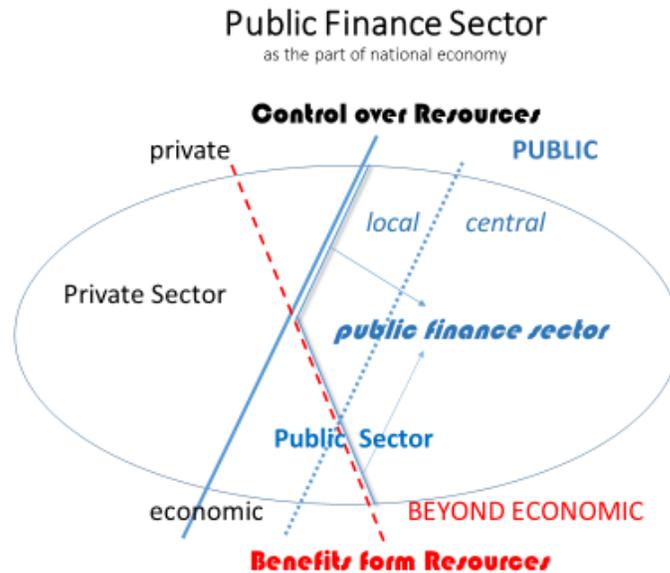
The public finance and the sector of the public finance are being defined in Poland both on the academic land, and on the land of regulations. In the academic sphere, the public finance is being seen both from the object prospect and functional prospect, as the thing or the process, that is as the resource or the process of the resource flow (Wiśniewski, 2005, pp. 27-28). As the resource, a public finance is a sum of cash being at the public sector disposal, as the process – a public finance is flows of money at the production of public goods by entities of the public sector. In the connected material-functional (resource-process) presentation, a public finance is defined as the collection of cash by entities of the public sector and its allocation on the production and distribution the public goods (there, p. 28). In the light of the resource-process approach, it is emphasizing that the public finance associated with the public sector is a subsystem of the national economy, having dual substitution-complementary character towards the private sector (Wiśniewski, 2005, pp. 6-17).

On land of the law, the public finance is defined in the act on public finance, in the procedural presentation, as "processes associated with the collection of public means and their allocation" (uofp, 2009, Art. 3.), occurring in the sector of the public finance. The act defines public means as resources, mainly cash, coming from the sources presented in the form of catalogue (ibidem, Art. 5), and allocated on public expenditures and other purposes determined by the act (ibidem, Art. 6). In addition, the act demands to periodically determining the surplus/deficit of the public finance sector as a whole (ibidem, Art. 7). Within the public finance act, the public sector has been narrowed to the public finance sector, and defined as the set of the following entities (ibidem, Art. 9):

- 1) public authorities, including government administration authorities, national inspection authorities, protection authorities of the law, and courts and tribunals;
- 2) self-government entities and their associations;
- 3) budgetary entities;
- 4) local government budget utility company;
- 5) implementation agencies;
- 6) institutions of the budget economy;
- 7) national appropriated funds;
- 8) the Social Insurance Institution and funds administered by it, and the Agricultural Social Insurance Fund and funds administered by its Chairman;
- 9) National Health Fund;
- 10) self-contained public healthcare centers;
- 11) public higher schools;
- 12) Poland Academy of Sciences and organizational units formed by her;
- 13) state and self-government cultural institutions and film state-run institutions;
- 14) other national or self-government legal persons created based on separate acts to the purpose of the performance of public tasks, excluding enterprises, research institutes, banks, and commercial code partnerships or companies.

Demarcation of the public finance sector from a point of view of the control over resources and the type benefits from resources is shown on **Schema 1**.

Schema 1



Source: Author's research

### 3. Current state of the public finance sector accounting regulation

In Poland the accounting of the public finance sector is governed with provisions of the law, being based on the Polish constitution from 1997 (Konst, 1997). In her Art. 61 is stated, that "the Citizen has the right to get information about the operations of public authorities and persons performing public functions... The Right to obtain information includes the access to documents and the admission to sittings of joint public authorities coming from the general elections, with the possibility of the recording of sound or the image." With reference to the public finance sector, acquiring and announcing financial information (in accounting understanding) a public finance law is regulating (uofp, 2009). This act defines the general shape of the public finance sector accounting system, and in case of issues it not embraced, is ordering the application of provisions for accounting, at bases of which an Accounting Act lies (uor, 1994). Executory provisions are accompanying both acts, and they have the form of orders or dispositions, mainly by the minister of finance. Public finance sector entities are supposed to establish their accounting system pursuant to requirements of both groups of provisions that is pursuant to provisions on the public finance and provisions on accounting, in addition regulations on the public finance have supremacy. Provisions on the public finance govern both public finance sector entity's accounting system, and the accounting or the budget of

official authorities (the state budget, the budget of local government), and connections among the entity's accounting system and the accounting of budgets.

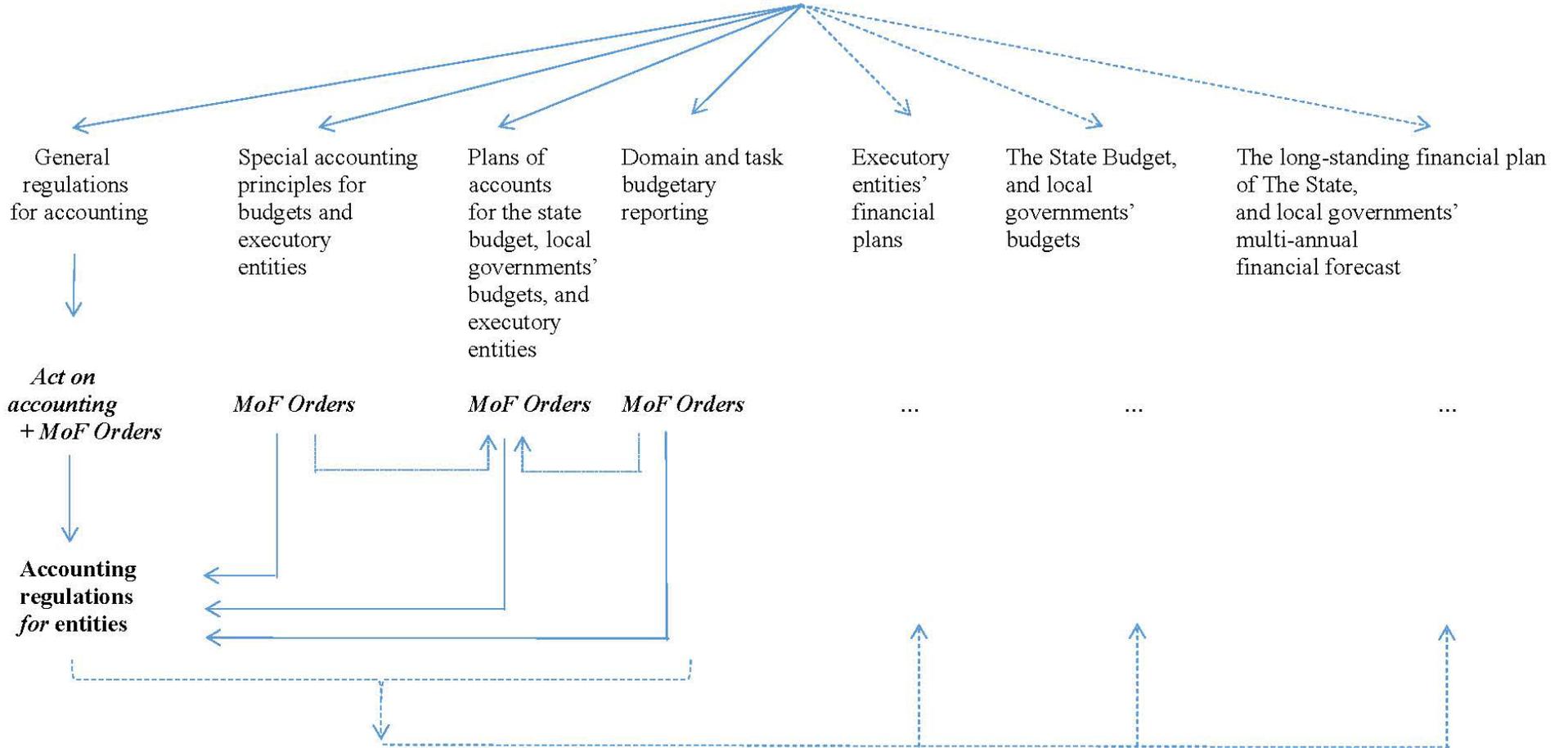
Both entities' accounting and the accounting for budgets are using the double record, in addition the entities' accounting based at the accrual convention, and accounting of budgets on the (modified) cash convention. Model plans of accounts for entities' and model plan of accounts for budgets are given in the order of the finance minister. Both the state budget, and budgets of local governments have a classical domain form, however the state budget has also a task form. Currently they comprise a set of regulations of the public finance taking the specificity into account place and implementation regulation to her:

- 2009 Public Finance Act;
- the order of the finance minister on special accounting principles, and plans of accounts for the state budget, budgets of local government, national appropriated funds and units executing the state budget and local government budgets;
- the order of the finance minister concerning the domain budgetary classification;
- the order of the finance minister on the budgetary reporting in the domain arrangement;
- the order of the finance minister on the budgetary reporting in the task arrangement.

The system of the regulation was presented to the accounting department of the sector of the public finance on **Schema 2**. The current state of this system has been reached due to almost seventy years evolution from the late 1940s till now, and it generates rather high quality accounting data.

**Schema 2**  
**System of Public Finance Sector Accounting Regulation in Poland**  
*As in April 2015*

**Act on public finance**



*Source: Author's research*

#### 4. Connections of the Polish regulations of public sector entities accounting representation processes with international regulations

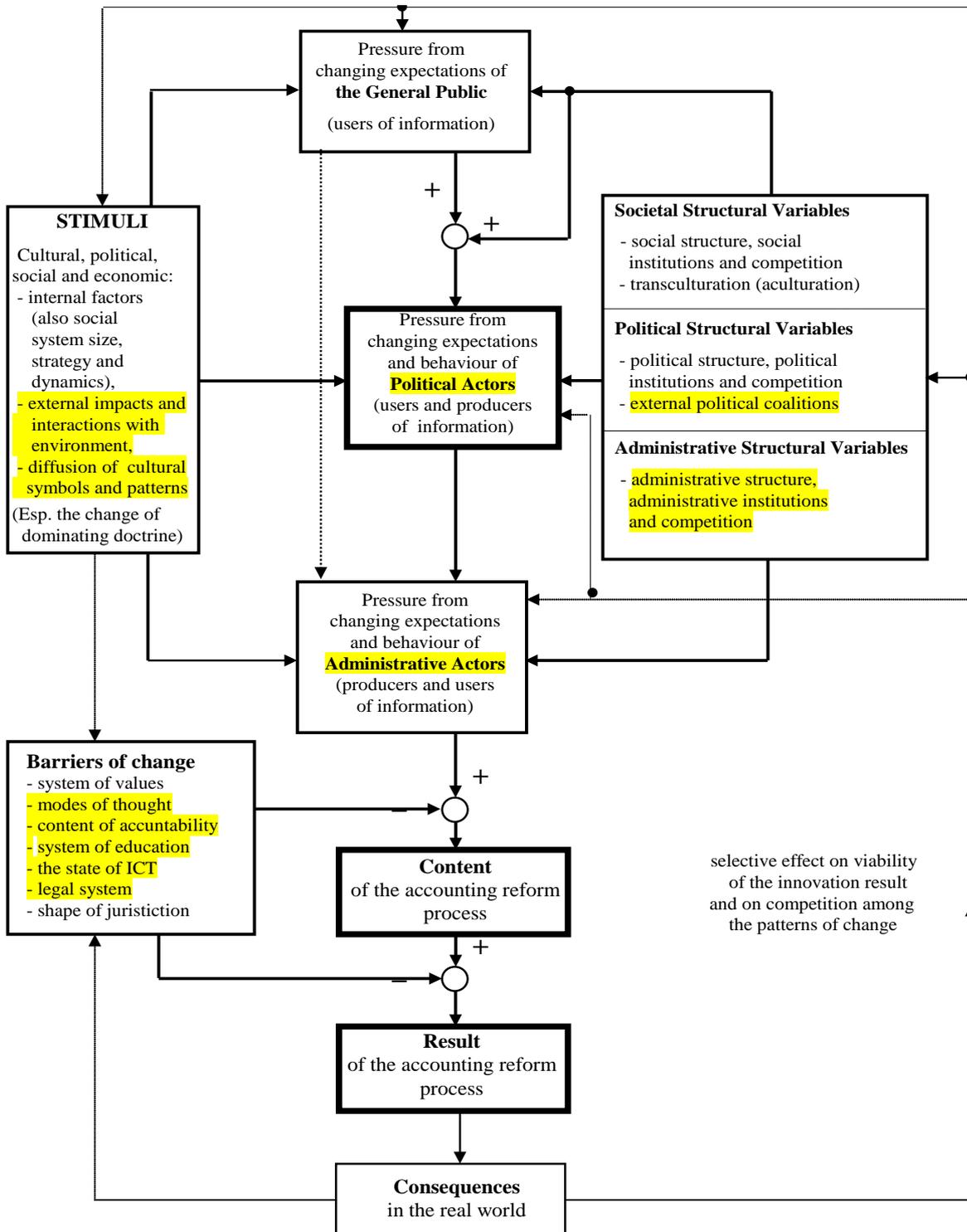
The 2009 Public Finance Act had considered regulations from the 2008 Protocol No. 12 of Treaty on functioning of the European Union (ToUE Protocol No., 2008) on the procedure concerning the excessive deficit, but next has been adapted to 2011/85 Directive on budgetary frameworks for Member States (EUDir 2011/85).

From its very beginning, it is from a year 1994, the Accounting Act assumed more important solutions from IAS, however limiting the reporting model to the balance sheet, the profit and loss account, and the cash flow statement, as well as considered solutions from the IV and VII EEC Directives (78 /660/EEC and 83/349/EEC), in 2000 deepened the convergence with the provisions of both Directives, and – with pattern of contemporary IAS conceptual frameworks and IAS1 – entered the definitions of financial statements elements (assets, liabilities, net assets, income, expenses) and accepted the full reporting model, widening the ternary model by adding the statement of changes in equity. At present this act includes 2013/34 /EU Directive requirements and is appealing to IAS/IFRS in the version published in the UE Official Journal. Both acts, the Public Finance Act and the Accounting Act, aren't directly referring to the International Public Sector Accounting Standards - IPSAS. The Accounting Act includes solutions from these standards to extend they are similar to IAS/IFRS, in addition excludes from directly applying in the public finance sector of the IAS/IFRS reporting model.

#### 5. Possible approach towards public finance sector accounting reshaping in Poland

In Poland it is possible to consider an approach towards the public finance sector accounting and reporting **reshaping** from the theoretical side and from the practicality. From the theoretical side the approach is being illustrated by the general model of the change in the accounting of the sector of the public finance, introduced on **Schema 3**. The schema implies that in the case of EPSAS the implementation will be a consequence of the diffusion of innovation and outside influences and effects resulting from outside political coalitions. Both political actors and administrative actors must be committed to this implementation. In addition it is necessary to take into account at least such barriers of change as the way of thinking, the ways and contents of accountability, the legal system, the system of education, and the state of the information and communication technology (ICT). Feedbacks will be taking place through consequences which the EPSAS implementation will trigger in the real world.

**Schema 3**  
**The General Model for Public Finance Sector Accounting Change**



Source: Adapted from [Nowak W.A., 2008, p.158]

From the practicality, determining areas which are supposed to be transformed is an important issue. Components of the infrastructure of public finance sector accounting and reporting will be critical areas of the change. Generalizing global experience model of this infrastructure was formulated in 2005-6 years through the World Bank. It is introduced on **Schema 4**.

## Schema 4



Source: [Hegarty, 2006a,b]

Today, it is necessary to extend the range of this model by adding budgetary accounting and reporting, and information and communication technology. After implementing these elements the infrastructure of public finance sector accounting and reporting includes:

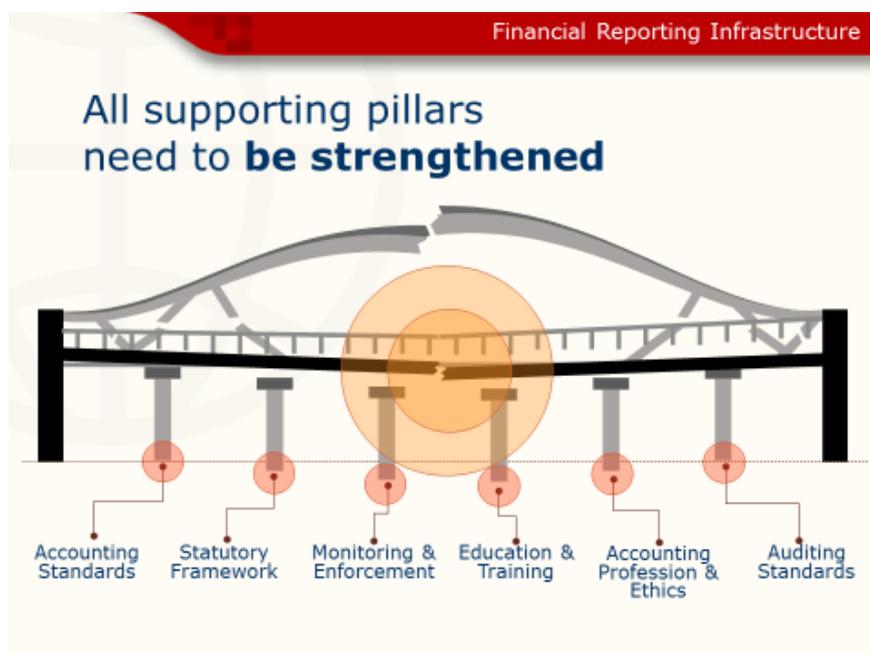
- 1) financial accounting and reporting standards,
- 2) budgetary accounting and reporting standards,
- 3) statutory framework,
- 4) monitoring and enforcement,
- 5) education and training,
- 6) accounting profession and ethics,
- 7) auditing standards.
- 8) information and communication technology

The World Bank suggests beginning the implementation of international accounting and reporting standards from estimating the quality of the framework of the functioning of the infrastructure of the national system of accounting and financial audit. This framework embraces (Hegarty, 2006 b, p. 2):

- economic context,
- legal and framework,
- accounting practice,
- audit practice.

Estimating should concern stating the actual state of the frames, and identifying a functioning way of thinking about them (of their dominating perception). The effectiveness of the implementation will be conditioned with both changes in the actual state of the frames, and changes in a way of thinking on them. The actual state of the frameworks, and a dominating way of thinking about them should become a point of departure for conversions in the accounting and reporting infrastructure. Changes should embrace the entire infrastructure of the public finance sector financial and budgetary accounting and reporting. Appropriate transformation and strengthening of each of the components of this infrastructure are a condition of the effectiveness of international standards local implementation (Hegarty, 2006b, p.3). In addition, they require the particular attention three from these elements, that is: the statutory framework, monitoring and enforcement, and education and training. Slowing down and negligence in these areas will cause the breakdown of the entire infrastructure what was illustrated on **Schema 5**.

Schema 5



Source: [Hegarty, 2006a,b]

Statutory framework has aspects instrumental and institutional. Both require taking into account. In the instrumental aspect a mechanism of granting the international standard the local force of law and coupling the standard with the tax law and the public finance sector entity law (public finance law) is important. In Poland, the mechanism of granting EPSAS of the force of law and harnessing them together with the law of public finance sector entity functioning will be dependent on the way of introducing EPSAS on the level of EU – by the EU directive or by the EC regulation (EC order). So, the statutory framework instrumental aspect will be relatively simple. The institutional aspect of statutory framework can turn out to be area very much of substantial changes. One should consider and convert the system of national institutions of creating, interpreting, monitoring and enforcing regulations of accounting. It would concern, among others, the role in this system of the Ministry of Finance, national Committee of Accounting Standards, Accountants' Association in Poland, and the National Chamber of Statutory Auditors. Perhaps establishing the new institution of the public supervision would be needed. By such direction of changes, one should keep the cohesion of formal-legal frames, avoiding parallel systems and promoting accepting the general platform of the financial

reporting with the scope limited to the minimum of necessary arrangements between the general purpose report and the reports of public finance law and tax law (also see: Hegarty, 2006b, p.5).

The issue of monitoring and enforcing applying standards by entities will be compounded and gentle matter. Observation of the compliance of financial statements with standards is unfeasible from the point of view of the user not-having sufficient power for extorting information needed for him from the reporting entity. In this regard it is necessary to rely on bodies about the recognized reputation. The trouble is that in world internationally recognized patterns of the good practice and models of such bodies are missing. There are no acknowledged instruments of their legitimization and generally accepted methodology of action, as well. The current world practice is also pointing to arising problems in monitoring and enforcing, because special organs of monitoring usually aren't directly interested in the general purpose financial reporting. Probably problems of harmonization of standards being based on principles with a natural tendency to the execution being based on rules will be a distinct issue. It is possible also to predict that the effectiveness of monitoring and enforcing will be conditioned with the span and the scope of the government regulation, the effectiveness of monitoring bodies and the judiciary, and the way of ruling the country. One should suppose that statistical surveys of the features of the population of elements of real financial statements and of their compliance with standards will become essential. These kinds of examinations can become a meaning type of academic research, what in many countries - also in Poland - would indicate the qualitative change in the profile of the research on accounting kept on universities in field. However, it would require proper preparing researchers.

As regards to the education and training in accounting and auditing, it seems that the education system currently functioning in Poland is able relatively easily to absorb EPSAS. However, one should expect increasing training actions in the reference to accountants working in the public finance sector entities and with reference to statutory auditors. It will require early preparing of both academic and non-academic teachers and instructors, and suitable textbooks and training materials. They will be processes taking quite a lot of time.

An information and communication technology will require the separate remark, as well. In particular it concerns the costly standardizing and streamlining computer systems of the extensive central government subsector of public finance.

## **6. Conclusion**

EPSAS are suitable for Polish accounting, and Poland is quite well prepared for the EPSAS implementation. It has reaching the second-half of 1940s tradition of applying in the public sector the accrual basis of accounting and the double record. It has a quite well-developed present system of financial and budgetary accounting and reporting, as well. All the not less, described in the paper models of the theoretical and practical approaches towards the EPSAS implementation can legitimize early taking preparations for the implementation, and these preparations structuralize.

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