MANAGEMENT ACCOUNTING IN EUROPEAN SOCIAL FUND FINANCED PROJECTS IN ROMANIA

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Associating spent amounts in European Social Fund (ESF) financed interventions to eligible activities could be important premises for safeguarding the sound financial management principle. Incorporating management accounting in the beneficiaries accounting systems may provide primary warranties about compliance to the above mentioned principle as described in the EC Regulation 1605-2002
This study aims to explore some facts in actual accounting management implementation, as a base for future improvements of Romanian ESF beneficiary's accounting systems
ESF financed interventions covers a large range of labor market related services, delivered to the people to increase adaptability and occupational mobility with the aim of allowing or improving labor market access. Even if these services are diverse and delivered by various entities such as government agencies, enterprises or NGO's, they do have something in common; they cannot generate incomes, but costs for implementing entities. But costs according to the sound financial management principle calls for tracing money with eligible activities using at least some if not all of management accounting concepts. Without some specifics from the donor or a mutual accepted best practice model, most of the ESF beneficiaries are reporting their efforts to actual researches and specialized literature regarding management accounting implementation in services delivering activities.
This study was realized in March 2012 by applying an investigation instrument, an on-line questionnaire collecting both opinions and factual data as well to a number of 962 members of a practice community for ESF interventions implementation. This technique was used to test hypotheses regarding the premises for a future improvement of the existing accounting system model by incorporating management accounting.
130 members of this community answered anonymously, revealing an important concern for management accounting usage, even if only less than 15% declared that they organize it continuously. The rest of more than 85% perceive an important concern about tracing money with budget breakdowns and activities within their projects, just about 65% of them considering also that their work is different now in an ESF project than in past situations. More than 83% of the ones organizing management accounting stated that their actual work is different than in past situations.
Analyzing all the answers, we may consider that our hypothesis is correct and there is a real opportunity for accounting system improvements, by incorporating management accounting.
Some other conclusions about interactions between the accounting and internal control systems may be drawn from the way that community members perceive communication from and to the accountant. Possible weaknesses of the internal control system may lead to unpleasant effects for sound financial management.
This study is a part of a larger research "New models of the accounting and internal control systems of ESF financed interventions in Romania", addressing a qualitative approach of ESF absorption through improved practices. The research is coordinated by Prof. Dr. Tatiana Dănescu and elaborated by PhD student Cristian Dogar.
JEL Code: M41 - Accounting
Keywords: Management accounting, Accounting system, European Social Fund, communication, sound financial management.

1. Introduction

Addressing ESF projects is claimed as difficult by most of Romanian beneficiaries. Even if they already implemented PHARE – Human Resources Development financed projects in the past, they are now facing something new, something bigger: larger project teams, target groups, implementation periods and budgets as well. New risks may occur and project management has to deal with these according to ever adjusting rules, enforced by the Managing Authority and lasting principles such as: transparency and sound financial management.
With this respect, beneficiaries control and accounting systems as parts of the larger national management and control system of ESF have their own importance in ESF implementation for managers and ESF officials as well.
If we consider that ESF financed interventions are implemented by beneficiaries organizations only if these are compliant with their own strategies, we may also consider that managers should use management accounting to choose, communicate and implement strategies (Horngren, Datar and Foster: 3).
Management accounting should than support managers in sound financial and transparency compliance assisting them through a continuous decision making process of resource allocation, considering costs and advantages, behaviors and technical conditions, different costs for different purposes (Horngren, Datar and Foster: 23).
Apart from financial accounting, the management accounting is an internal reporting one; organizing such a system stays at manager's decision. The National regulatory framework imposed the management accounting as mandatory in Romania (art. 1 of Law no. 82-1991 Accounting Law, republished), but conditioned by some subsequent implementation rules, never issued. Hereinafter some questions arise. Is it now clear enough for managers of ESF implemented projects that they need accurate and timely financial and non-financial information? So are they asking for? Are they organizing the accounting system in the way this information may become accessible? Is accounting management a reality of actual stage of ESF implementation in Romania? Do they explain to the accountant what the project is about and the manner that costs are covering activities progress? Is the actual implementation faraway from a sound management accounting? Is it possible to implement it now? The subject of this study are answers at these questions, as a part of a more comprehensive research dealing with new models for accounting and internal control systems for ESF projects.

2. Literature review

Our study aim is to collect opinions from accountants of the ESF financed projects and to provide a conclusion about the actual facts of ESF implementation. We are not comparing now different models of management accounting, so we do not rely on any of management accounting dedicated studies. Anyhow, the general context is described in the regulatory framework and in the selected references as referred to in the study.

3. Methodology

For relevant conclusions, collecting opinions and factual data from ESF implementation teams has to cover a large area and an important number of opinions. In 2010 – 2011, an ESF financed project created a virtual community of financial responsible, accountants and auditors of ESF projects. That community, comprising more than 950 people from all over the country, working in some of the about 2000 projects in implementation at that time was relatively active at the end of 2011. The list of communities' members is available at: www.practicifse.ro
An opinion and factual data on-line questionnaire was applied to all members of the community, asking the accountants for an anonymous reply by choosing the most suitable version of the answer at every of the ten questions. We assume that no one answered twice or more times at this questionnaire. Answers were collected in a table, using Google docs during March and April 2012.

4. Study results

There are 130 answers, so the response rate is more than 13%. Organizing accounting in work centers could be a plus for accounting management; all projects costs can be physically separated from the current costs of the entity in synthetic accounts. The other option, registering costs in analytical separate accounts needs financial documents accurate management of verification prior of the accountant.

Nearly 17% claimed that they organize accounting in work centers, meaning an increased interest to separate the accounts of the project. The second question was about management accounting in the ESF projects. Apparently no more than 18 answers were compliant with the definition of management accounting, representing less than 14% of the total answers.

As we find out that now, accountant of ESF projects prefer organizing accounting in work centers more than management accounting.

ESF interventions have their own rules and particularities, and costs incurred must follow these properly. Certainly, acknowledging these particularities may involve efforts from all interested parties, and accountants are not an exception. Having a long tradition in being involved only in financial accounting, the accountant may face difficulties in fully understanding of what's to be done in such a project. Regarding the understanding of ESF intervention respondents stated as follows:

Table no. 1. Understanding of ESF intervention

Opinions	With management accounting	Without management accounting
Are you aware about the content of ESF intervention you are keeping records for and what's to do on it?		
Fully understood, I understand exactly what's to be done	66,67%	59,82%
Fully understood, I read the project	27,78%	30,36%
Partially, not enough information	5,56%	9,82%

We may than consider that those who organize accounting management are aware in a more direct way about the facts of the ESF financed intervention than the others. Even so, with an aggregate figure of more than 90% we can assume that accountants fully understood the projects content.

ESF project is implemented within the limits of the approved budget breakdown. Budget lines include sums to be spent for eligible expenditures, in a particular way, choosing among existing procedures. Balances of analytical accounts should be put in correspondence with existing budget lines. Commitments should be recorded separately, allowing the accountant to estimate the remained availabilities for every item. About the awareness of the budget breakdown, respondents stated as follows:

Table no. 2. Awareness of budget breakdown

Opinions	With management accounting	Without management accounting
Are you aware about the content of ESF intervention budget breakdown?		
Yes, I have a copy	100,00%	89,29%
Yes, broadly	0,00%	9,82%
I have not enough information	0,00%	0,89%

There is no doubt that the accountants organizing management accounting have more information about budget breakdown and than the others, having in so a proper possibility to put in correspondence financial documents (costs) with the budget lines.

Table no. 3. Corresponding costs with budget breakdown

Opinions	With management accounting	Without management accounting
Do you realize correspondence between financial documents presented for registering and budget breakdowns?		
Always	100,00%	79,46%

Almost always	0,00%	9,82%
Sometimes, almost never, never, not relevant	0,00%	10,71%

The accountant of an ESF project, as stakeholder, has to be aware not only on budgets, but also in activities, in implementation realities. It's largely accepted in Romania that accountants are more interested in figures than in facts. The answers received confirms that accountants have more interest in budgets, 79,46% of them always connecting financial documents with budgets, as long as only 65,75% are always connecting those documents with projects activities. We also found out that a small part of the accountants are not connecting costs to activities or budget breakdowns.

Table no. 4. Corresponding costs with project activities

Opinions	With management accounting	Without management accounting
Do you realize correspondence between financial documents presented for registration and project activities?		
Always	100,00%	68,75%
Almost always	0,00%	16,07%
Sometimes, almost never, never, not relevant	0,00%	15,18%

Communication to and from the accountant could be a very important issue in assessing reliability of financial data. The accounting system has to receive not only invoices, but also certifications from the management about reality of costs represented by the transferred invoices or other financial documents. According to the answers, even in case of management accounting, accountants do not receive always information about meaning of financial documents received to register. For projects that are not keeping management accounting, less than 60% of the respondents receive always explanations.

Table no. 5. Communication about invoices from management or responsible person

Opinions	With management accounting	Without management accounting
Do you receive explanations from management or responsible person for financial documents for registration?		
Always	94,44%	59,82%
Almost always	5,68%	26,79%
Sometimes, almost never, never, not relevant	0,00%	13,39%

Certification of financial documents by the authorizing officer is very important for ensuring reliability of financial information. Authorizing officer may be the project manager or other responsible as well. Semantically assuming that certification could mean only verification, we found out that even if management accounting is organized, more than a quarter of respondents perceive lack of verification. If no management accounting, only 63,39% of the accountants perceive document verification prior receiving them.

Table no. 6 Perception about prior authorization of financial documents

Opinions	With management accounting	Without management accounting
Are the financial documents received by you for registration prior verified by another person?		
Always	77,78%	63,39%
Almost always	22,22%	25,89%
Sometimes, almost never, never	0,00%	10,71%

Certification means more than a simply verification of documents, than we may assume that financial documents are certified prior the accountant less than indicated in the answers received. This indicates possible malfunctions of internal control systems with influence on potential for fraud and on compliance with sound financial management principle.

Communication is sideways, and accountant should act accordingly. Accountant can deliver a lot of information but is this requested by the manager? Is the management asking for more information that the one accountant are usually including in financial reports of the organization?

As a part of communication process we wanted to explore the accountant's perception about manager's expectation for more information. Those who organize management accounting are delivering always such information to managers. We conclude that managers are always asking for more information when they organize management accounting, and are frequently asking for such information in no management accounting situation. The large number of responses "sometimes, almost never" may drive to a limited compliance of the intervention at the sound financial management principle.

Table no. 7 Perception about management's interest on non financial information

Opinions	With management accounting	Without management accounting
Is management asking you for more information but the one you usually include in yours entity financial reports?		
Always	100,00%	16,96%
Frequently	0,00%	48,21%
Sometimes, almost never	0,00%	34,82%

Accountant perception about difficulties in implementation, relatively to prior work experience was another issue of the study. The received answers confirmed the theory of "European bureaucracy" and how is this viewed by accountants, practitioners in ESF projects. Working in these projects is considered "extremely different", "very different" and "different" by more than 80% of those who organize management accounting and "very different", "different" and "small differences" by more than 80% of those who are not organizing management accounting. We may consider that different opinions between those organizing and not organizing management accounting is due to the management accounting implementation in entities accounting system. The opinions of those who are not organizing management accounting can be taken into consideration in quantifying the "European bureaucracy".

Table no. 8 Perceived work differences relatively to prior work experience

Opinions	With management accounting	Without management accounting
Do you think that your work now, implementing ESF project is different (more complex) reported to prior situations, without ESF project?		
Extremely different	33,33%	8,93%
Very different	16,67%	16,07%
Different	33,33%	40,18%
Small differences	16,67%	31,25%
Unchanged	0,00%	3,57%

5. Conclusions

ESF funding is based on rules to be applied by the Member State beneficiaries. The rigor of these rules is differently perceived depending on compliance reaction. Even without organizing management accounting, working in ESF projects is broadly considered different and those accountants who organize accounting management consider their work as extremely and very different.

Managers and accountants are aware, in different measure that sound financial management principle is to be applied in the projects. Organizing work center based accountancy is one first step in adequate records keeping. Relatively to management accounting, this is simply and costless, especially when accountants perceive communication with authorizing officer as insufficient. Management accounting to be developed means the two parts working together: management (internal control system) and accountant (accounting system). Manager has to be interested in management accounting reports and accountant has to be convinced (prior authorization) that documents he registers are reflecting real and legal operations. Even if management accounting is broadly not organized, accountants are associating costs to budgets and activities in a substantial manner, so we may consider that accountants acting on ESF rules are carrying the premises for new accounting systems based on management accounting implementation.

Concluding, we may consider that managers are not entirely aware of the need for accurate and timely financial and non-financial information, except the ones working in projects those accountants are organizing management accounting. Only a small minority have organized management accounting, so information is not always timely accessible in ESF projects. Communication is perceived as limited by the accountant as long as documents are not entirely explained or checked before presentation for registration. Apparently managers have a limited interest on supplementary data available at the accountant; there may be a lack of feedback with possible impact on sound financial management principle compliance.

Based on the different perceptions of those who are organizing or not management accounting we may consider that results of this study are confirming there is a real opportunity for accounting system improvements, by incorporating management accounting for a better compliance of ESF projects with the sound financial management principle. Organizing also a proper internal control system is a must; using COSO's referential as the most suitable solution, as long as even INTOSAI oriented its guidelines on internal control on COSO.

Management accounting may also offer a proficient feedback instrument to be used against implementation risks, over budgeting being one of the most important.

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Acknowledgements

Financial support for this article has been provided through the project ID 63269, implemented under the SOPHRD and financed by the ESF and Government of Romania.