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PUBLIC FINANCIAL CONTROL – FINANCIAL POLICY INSTRUMENT OF THE STATE

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Abstract: *The main objective of this paper is to provide an objective approach, starting from the current legislation, on the financial control system and the extent to which it can be an instrument of financial policy. At the same time, this paper captures the structure of the financial control system in Romania with brief considerations of the forms of financial control that make it up, starting from the community acquis in the field of financial control. In the current economic-social context, the existence of financial control standards is required, which are guaranteed by the Romanian state through the creation of a set of laws that govern this field. The pragmatic approach to financial control is vital for establishing its objective, based on specific management methods and techniques, and with the help of which the consolidation of order, discipline, the spirit of responsibility, as well as the efficient management of the economic and financial resources managed by the entities can be achieved public. Financial control must ensure the good functioning of all activities in the economic sphere and is called to act systematically in order to identify or prevent possible deviations and deficiencies, increase the efficiency in the use of resources, preserve the integrity of the heritage and, last but not least, in understanding the way in which legality is respected in the economic and financial field.*

Keywords: financial control, public financial control system, public audit and community acquis

1. Introduction

The current economic-social context requires the existence of financial control standards, which are guaranteed by the Romanian state through the creation of a set of laws that govern the field of financial control. The pragmatic approach to financial control is vital for establishing its objective through the use of methods and techniques specific to management and with the help of which the consolidation of order, discipline, the spirit of responsibility, as well as the efficient management of the economic resources managed by public entities can be achieved. On the other hand, the financial control aims to eliminate shortages, deficiencies, and deviations in the economic-financial field. All these ensure accelerated economic development, resulting in a financial effect that contributes to ensuring an adequate standard of living and creates the premises for effective social protection [1].

Considering that the general goal of the state is the well-being of its citizens, it is necessary to judiciously use the financial resources available to public institutions.

The financial control represents a key function in management, providing a true picture of the reality of the activity of public institutions from both a qualitative and a quantitative perspective. The financial

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control facilitates an in-depth analysis of the public institution's strengths and weaknesses, thus contributing to the efficiency of management processes.

As a managerial function, control represents the end point but also the starting point for a new managerial cycle, summing up the efficiency probabilities identified but also the evaluation of the solutions implemented in the previous cycle.

2. General Considerations regarding the Concept of Financial Control

In specialized literature, control is defined as a *"permanent or continuous check of an activity or situation etc., in order to follow its development and to take measures for improvement"* [2], while financial control is defined as *"the examination of the way in which the objectives and programs assumed by different entities are achieved, from a financial point of view, with the aim of preventing or discovering possible mistakes, errors, deficiencies, in order to fix them and avoid them in the future"* [3] or as *"permanent or periodic analysis of an activity or of a situation in order to monitor progress and take improvement measures. It is a check, a careful inspection of the accuracy of a supervision act or action of someone or something, a thorough examination or power to manage a process or a mechanism, as a regulatory instrument thereof"* [4].

Based on the previous definitions, one can appreciate control as a management function or tool and as a decisive factor in making top decisions at the level of public entities.

Financial control can be defined as a thorough and practical research on the management of finances in the achievement of the objectives and programmes that public entities undertake, the end state being the prevention or discovery of potential errors or irregularities, their correction, recovery, and avoidance in the future.

Through the activity of financial control, data and information of an economic-financial nature can be collected, information that can be made available to the state regarding: the way of managing the material and financial means of public entities, achieving financial stability, meeting the economic-financial efficiency criteria, the evolution of the national economy and the accomplishment of social progress.

According to national legislation, financial control aims to achieve compliance with the regulations in the financial field, the use and formation of financial resources of the state budget.

In the case of public entities, the financial control has several objectives presented in Figure 1.

drawing up the income and expenditure budget and its execution

increasing cash accumulations and ensuring solvency

increasing own financing resources

permanent preservation of patrimonial integrity

discovery and recovery of damages and losses suffered

liquidation of excessive expenses

stopping the causes of waste

compliance with financial and fiscal discipline

Figure 1: The objectives of financial control
Source: Author's own processing according to Law no. 500/2002 on public finances

Starting from the objectives presented in Figure no. 1, it can be appreciated that the financial control has an essential role in the development of the activity of public entities, being the instrument that must ensure the knowledge of the reality and the improvement of the ongoing processes. By means of financial control, it is possible to identify to some extent both the illegal nature of financial operations and the causes of unfavourable developments in the financial field.

Therefore, financial control is the main source of information for general management.

3. The Public Financial Control System

3.1. The Community Acquis in the Field of Financial Control

As a member country of the European Union, hereinafter referred to as the EU since January 1, 2007, Romania has assumed the implementation in the primary and secondary national legislation of the entire acquis communautaire/Community acquis in the field of financial control.

In chapter 32 (formerly 28) of the Community acquis entitled *Financial Control*, Community acquis is defined as *"the examination of the way in which the objectives and programs undertaken by different entities are achieved, from a financial point of view, with the aim of preventing or discover possible irregularities, errors, deficiencies, in order to fix them and avoid them in the future. Therefore, the financial control can be carried out before or simultaneously with the targeted operations, programs and processes, but also after the completion of the activities carried out as part of these"* [5].

The Community acquis corresponding to chapter 28 - Financial control - through which the introduction of the concept of internal public financial control *"mostly comprises principles of internal public financial control, accepted at international level, in accordance with European principles and which must be transposed in the control and audit systems of the entire public system"* [6].

3.2. The Public Financial Control System in the EU and in Romania

In accordance with the good practices used in the EU in the field of public financial control, hereinafter referred to as PFC, Romania has improved the entire conceptual and strategic framework at national level, by implementing an internal public financial control system based on the general framework established by the Committee of Sponsoring Organizations (COSO) since 1995. COSO is an independent American private sector organization dedicated to studying the causal factors of financial fraud and improving the quality of financial reporting through business ethics, effective internal controls, corporate governance, and includes professionals in the field, external audit firms and large American companies and members of the Institute of Internal Auditors (IIA).

By implementing PFC, the management has the responsibility to ascertain any deviation of the results from the objectives, to investigate the causes that determined them, and to impose measures leading to their prevention and correction.

The development of the PFC aims at the creation and implementation of a system that includes in its scope all public law bodies and public authorities that have attributions in the sphere of control, as well as to establish an architecture in which all the forms and procedures of internal control can be exercised within each entity.

Romania created its own unitary national financial control system based on the model of the public financial control system in the EU, as presented below [7].

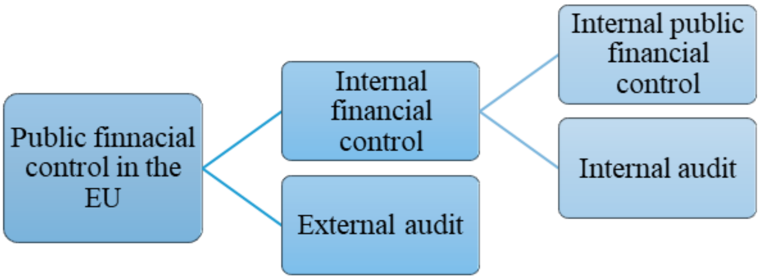

Figure 2: The components of the public financial control system in the EU

According to Figure no. 2, the public financial control system in the EU includes two large components delimited from the point of view of the attributions, the persons authorized to carry out the activity, and the manner in which control is exercised.

Public financial control provides a reasonable degree of certainty that guarantees the achievement of operational objectives in an efficient, effective, and coherent manner required by its aim in the EU.

The aim of public financial control in the EU refers to:

a) *the management of EU resources* - carried out through the *Advisory Committee on the Communities' Own Resources;*

b) *the use of EU funding* - carried out through the control bodies of the member countries and of the EU;

c) *the protection of EU interests and the fight against fraud* - carried out through the *Advisory Committee for the Coordination of Fraud Prevention and the European Anti-Fraud Office* (OLAF).

According to Law 672/2002 PFC designates *"the entire internal control system in the public sector, consisting of the control systems of public entities, of other structures authorized by the Government and of the units responsible for the harmonization and implementation of control and audit principles and standards"* [8].

Based on the model of the public financial control system in the EU, Romania structures its financial control system in the public sector on the following components:

- the internal managerial control system - it includes *"the set of control forms established by management and exercised at the level of the public entity in order to ensure the administration of funds in an economical, efficient, and effective manner; it also includes organizational structures, methods and procedures"* [9];
- the internal public audit – it *"represents the functionally independent and objective assurance and advisory activity, designed to add value and improve the activities of the public entity; it helps the public entity to fulfil its objectives, through a systematic and methodical approach, evaluates and improves the efficiency and effectiveness of risk management, of control and governance processes, according to the definition given by the normative framework in force"* [10];
- centralized coordination and harmonization of the two components mentioned above, through:

a) *The Directorate of Internal Managerial Control and Institutional Relations* - under the coordination of the General Secretariat of the Government;

b) *The Central Harmonization Unit for the Internal Public Audit* - under the coordination of the Ministry of Public Finance.

In accordance with the *Strategy for the Development of Internal Public Financial Control in Romania*, for the period 2017-2020, the types of control specific to public financial control in Romania are:

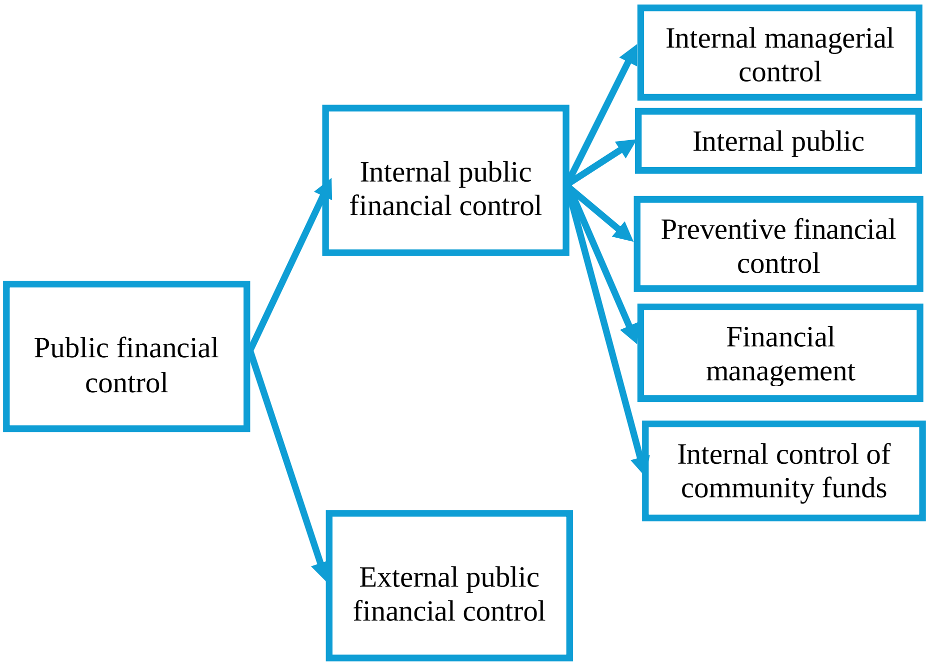

Figure 3: Types of controls specific to public financial control in Romania
Source: Author's own processing according to Strategist development of financial control domestic public in Romania updated 2017-2020

In the following section, each of the control types of public financial control presented in Figure no. 3 will be analysed.

Internal managerial control is implemented with the help of 16 standards [11] which establish a series of rules and measures specific to management, rules that must be applied and adapted by public entities to the specifics of their activity. These rules, established with the help of the 16 standards, have the role of determining the areas (departments, sections, offices) where it is assumed that risks may occur and of taking the necessary corrective measures.

The phrase *internal managerial control* highlights the vertical hierarchical responsibility of the entire chain of command regarding the need to maintain all internal processes carried out to achieve general and specific objectives within a framework of legality. Moreover, inter-managerial control plays an important role in risk management, prevention, detection of fraud and improvement of the information flow at the level of the entire public institution. The internal managerial control aims to regulate both the achievement of the objectives by complying with norms and procedures, and the degree of achievement of the performance by allocating resources efficiently and economically, resulting in optimizing their use.

The internal public audit activity is based on the *Annual Internal Audit Plan* and the *Multi-Year Plan*, developed by the specialized departments of internal public audit and subsequently approved by the credit officers of each public institution. The main objective of the public audit is to improve management by carrying out audit missions by audit types, as follows:

a) the types of audit existing in the legislation refer to:

- *system audit*, which represents an in-depth assessment of the management and internal control systems, with the aim of establishing whether they operate economically, effectively and efficiently, to identify deficiencies and formulate recommendations for their correction;
- *performance audit*, which examines whether the criteria established for the implementation of the objectives and tasks

of the public entity are accurate for the evaluation of the results and assesses whether the results are aligned with the objectives;

- *regularity audit,* which represents the examination of actions on the financial effects on public funds or public patrimony, in terms of compliance with all the principles, procedural, and methodological rules applicable to them.
- *information technology audit*, which examines and evaluates the risks, policies, procedures, operations, applications, data management, and infrastructure of the public entity in the field of information technology.

b) audit missions:

- *assurance missions*: regularity/compliance, performance, system.
- *advisory missions*;
- *evaluation missions*.

With regard to possible irregularities, deficiencies, or errors identified by the auditors, the solution method is identified, the result and the causes are analysed, and measures are proposed to eliminate them. The entire activity of the internal public audit carried out during a year is reported to the Central Harmonization Unit for the Internal Public Audit in the form of an activity report.

The financial management control *"is exercised in the case of economic operators and concerns the management of own patrimony and goods from the public and private patrimony of the state or administrative-territorial units under administration, under concessions or leases"* [11]. The set of management control activities is included in the annual, quarterly, and monthly activity programs developed by the staff with tasks in this field and approved by the head of the economic entity.

Internal control of community funds is exercised *"in the case of public entities that have the capacity of authorities with powers in the management of European funds or beneficiaries of operations financed in whole or in part from national public funds"* [12].

The purpose of the preventive financial control is *"to identify the operation projects that do not comply with the conditions of legality and regularity and/or, as the case may be, which are within the limits and destination of budget and commitment credits and by the execution the public patrimony and/or public funds would be damaged"* [13].

Preventive financial control is an activity organized within all public entities, consisting in the systematic verification of operational projects that involve financial and/or patrimonial decisions. The verification concerns the legality, regularity, and inclusion of the operations subject to control within the limits of budget/commitment credits approved in accordance with the normative framework in force.

Starting from the need for prevention and based on the continuous requirement for information on the current situation of patrimony and everything it includes, a complex control system was established at the national level, structured in such a way as to cover the entire social and economic area of the public entity.

The normative acts in force establish the general framework for organizing and conducting preventive financial control at the level of all public entities, through its two forms:

- own preventive financial control;
- delegated preventive financial control.

4. Conclusions

As a tool for implementing the state's financial policies both at the macroeconomic and microeconomic levels, financial control is used personally or with the help of a specialized control apparatus, mainly for:

- ✓ the prevention of illegal acts;
- ✓ the identification of deficiencies;

✓ establishing the necessary measures to restore legality.

In the field of financial control, we identify:

✓ financial relationships, phenomena and processes;

✓ the process of administration and management of the patrimony;

✓ the results of economic and social activity at all time, the units and places where material and monetary values are managed, and expenses are incurred.

The financial control must ensure the good functioning of all activities in the economic sphere and is activated inn order to act systematically for the identification or prevention of possible deviations and deficiencies, increasing the efficiency in the use of resources, preserving the integrity of the heritage and, last but not least, for understanding the way in which legality is respected in the economic and financial field.

The legitimate question that can be asked is: why is financial control needed? There is no single answer.

One of the possible answers is based on the need to implement intervention programs and policies that focus, in a preventive manner, on those dangers that pose the greatest risk to the achievement of the entity's objectives.

Another possible answer could be that for achieving good governance, the entity should implement those control measures that must be proportional to the risk associated with the activities of the entity.

Starting from the need to establish an organizational culture of financial control, it can be stated that it can be achieved by:

✓ transparency and communication; participation of all employees;

✓ responsibility of all personnel;

✓ streamlining of all activities;

✓ coherence in strategies, policies, and measures.

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