



Making Expenses According to the Legislation Regulating the Preventive Financial Control, at the Entities of Public Interest

Georgiana – Janina Soare¹, Magdalena Dănescu²

Abstract: The need for control is determined by the fact that in modern society the fundamental criterion of efficiency defined by increasing and improving the qualitative aspects is permanently promoted to the detriment of the quantitative ones of all activities carried out at the level of an entity of public interest of an economic, social, or administrative nature. Thus, through control, any public interest entity is concerned to be able to access information in a current and operative way regarding the management of financial, material, and human resources at its disposal, one of the most important forms being preventive financial control (PFC).

Keywords: preventive financial control (PFC), entity of public interest, resource management, making expenses, legality.

JEL Classification: M41; M42

1. Introduction - the purpose of preventive financial control (P.F.C.), its scope and methodology for exercising it

The P.F.C. “is exercised over all operations that affect public funds and/or public patrimony”. At the same time, “The commitment and ordering of expenses is carried out only with the prior visa of own preventive financial control and of the delegated preventive financial control, as the case may be [...]”.

¹ PhD in progress, Valahia University Targoviste, Romania, Address: Aleea Sinaia 13 Str., Targoviste 130004, Romania, Corresponding author: janina_soare@yahoo.com.

² PhD in progress, Valahia University Targoviste, Romania, Address: Aleea Sinaia 13 Str., Targoviste 130004, Romania.

The head of the economic entity is responsible for the organization of the P.F.C. depending on its specificity, and *“aims at identifying projects of operations [...] that do not comply with the conditions of legality and regularity and/or, as the case may be, within the limits and destination of budgetary and commitment appropriations and through which would prejudice the public patrimony and/or the public funds”*.

The P.F.C. at the level of the public interest entity constitutes an activity of increased scope and complexity and is exercised at the conclusion of a procedural flow related to an operation with financial influences on the respective entity. At the exercise level of the P.F.C. *“are aggregated all the risks from the compartments that were successively involved in the respective operation [...] having the role of articulating the different types of previous verifications by assuming the specific responsibility”*.

The P.F.C. is carried out through a systematic verification of all operations with financial impact on public funds or public patrimony regarding aspects such as:

- legality control - from the perspective of verifying the compliance with the specific legal requirements in force at the time of that operation;
- regularity control - regarding the observance of all the principles, procedures, and regulations applicable to the operations on which the P.F.C.;
- Budgetary control - involves verification from the perspective of compliance with the limits and destination of the approved amounts.

The Own Preventive Financial Control (O.P.F.C.) resides from the systematic verification of the operations with financial impact on the entity of public interest and is exercised from the perspective of two main axes:

- legality and regularity;
- Compliance with the approved budgetary limits.

The Delegated Preventive Financial Control (D.P.F.C.) is organized at the level of economic entities within which economic operations are carried out *“which may affect the balanced execution of budgets or which are associated with risk categories determined by the specific methodology of risk analysis”* (Point 7.1., C. *The delegated preventive financial control*, Order No. 923/2014) and is exercised through the delegated controllers appointed by the Minister of Public Finance, with the following attributions:

- on its own initiative or at the request of either the authorizing officer or the Minister of Public Finance, issues advisory opinions on the subject of compliance, efficiency, economy, effectiveness of operations affecting public funds;
- monitors budget execution on the basis of balance and prudence;
- Monitoring and counselling regarding the P.F.C. from the perspectives of legality,

regularity and last but not least limits and budgetary destination.

The methodological and procedural framework applicable in the sphere of P.F.C. is created from the disposition and in the coordination of the head of the entity according to their specificity through a complete set of operational procedures for granting the P.F.C. and internal provisions, summarizing the following types of procedures, but not limiting them:

- operational procedure for granting the general P.F.C. visa;
- operational procedure for granting the P.F.C. visa on procurement contracts;
- operational procedure for granting the P.F.C. visa on invoices issued by suppliers;
- operational procedure for granting the P.F.C. visa on invoices issued to customers
- Operational procedure for individual evaluation of the activity of the P.F.C. etc.

The general purpose of the operational procedures lies in the way in which it is recommended to carry out the activity of P.F.C. within the public-interest entity for the identification of operational projects (hereinafter referred to as operations) which do not comply with the conditions of legality and regularity and/or, as the case may be, within the limits and destination of budgetary and commitment appropriations would harm public assets and/or public funds.

Persons designated to exercise P.F.C. are responsible by internal provisions of the head of the public interest entity and involves the route described by the process diagram in *Figure no. 1. Diagram of P.F.C process*

At the same time, the operational procedure describes the manner of exercising the attributions with the exercise of the P.F.C. by designated employees. At the same time, the pillar principles of exercising the P.F.C. are presented, respectively: professional competence; decisional independence conditioned by the separation of attributions; objectivity; moral conduct; confidentiality; incompatibility.

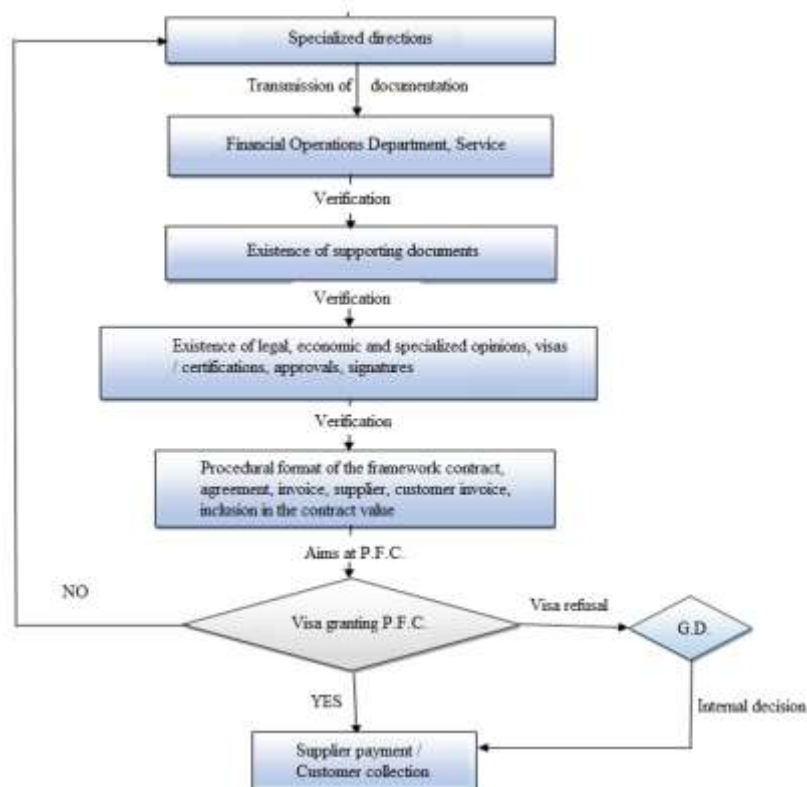


Figure 1. Diagram of P.F.C. Process

Source: own conception

2. Literature Review

From the multitude of specialized works that in our opinion interfere with the topic of scientific research (study) and which denote the relevance in capitalizing the financial control exercised over the economic-financial activity carried out at the level of a public interest entity, were retained:

- The paper “*Accounting, control and governance*” (Albu, Albu & Feleagă, 2016) as a tribute to Professor Nicolae Feleagă, is an impressive collection of valuable works dedicated to the illustrious professor and whose content interferes with the theme of the present scientific approach;
- The paper entitled “*Types of control and organizational learning: a review of literature and research directions*” (Albu, Albu & Feleagă, 2012) which is based on another prestigious work, *Accounting, control and governance* (Albu, 2012), brought to our attention the debate regarding the relationship between interactive control and learning, represented as in the figure below:

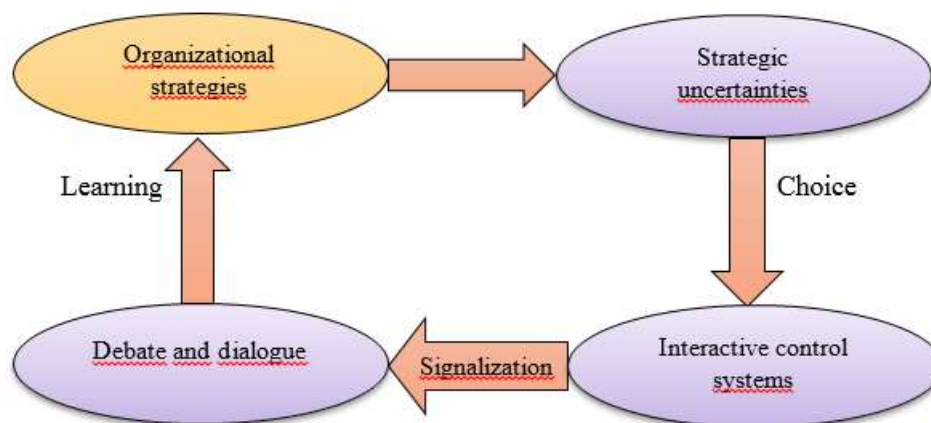


Figure 2. Interactive Control Systems and Organizational Learning

Source: Albu, Albu & Feleagă, 2012, p. 343 (taken from Wegmann, 2003; Briühl, 2004);

- Through the scientific paper entitled “Corporate governance in listed and controlled companies by state in the Romanian energy system” (Feleagă & Bătae, 2020) we were confirmed once again, the importance of internal control and implicit financial control in good management of any public interest entity. Thus, the recommendation of the authors of the work in question summarizes the fact that, “[...] in the entities in which the Romanian state is a shareholder to adhere to a uniformity of the type of information presented” and also to strengthen transparency in the area of internal control.
- Scientific research whose topic is “Peculiarities of improving internal financial control in Russian corporations” (Karmanova, Podsevalova, Mityurnikova, Silaeva, Atamanova & 2018) reveals the methods and elements of financial control, financial fraud and ways to identify and prevent it.
- The paper “Improving Financial Control over the Governmental System” (Zavalko, Panina, Kovalev, Zhakevich & Lebedev, 2017) aims at analysing the dangers facing the banking system in the Russian Federation and violating the law on the use of state financial resources.
- The paper *Financial-Fiscal Control* (Boulescu, 2007) through which we got deeper acquainted with the concept of financial control, from the perspective of the managerial function it performs, object and forms, and more.

2. Research Methodology

The present scientific research is defined as a systematic process through which observable and verifiable data are collected, starting from empirical models and represents a sustained approach in order to identify the truth in the context of established objectives, through theoretical and applied study, the latter exercised by techniques and methods such as observation, comparison and experiment.

By referring to the defined objectives, scientific research falls into three directions of approach, namely:

- *descriptive study*, by the exact description of the characteristics of some situations;
- *formative study*, carried out by exposing some perspectives on some phenomena;
- *evaluative study*, which resides in determining the effects/consequences of certain actions;

The scientific approach meets the requirements of several types of research, namely: descriptive, fundamental, qualitative, quantitative and last but not least conceptual.

The present scientific research is presented in a speculative approach in which approximately 40% of the content is dedicated to the documentary activity, and approximately 60% represents the innovation part, dedicated to novelties, presenting it in a unique perspective mainly based on reformulation and analysis. Moreover, the present scientific research is highlighted by originality and substantiality alike.

3. Critical Analysis of the Way of Exercising the Preventive Financial Control at the Level of a Public Interest Entity

The purpose of this application presentation was to highlight the importance of the P.F.C. and at the same time the relationship created between the financial management control, the budgetary control and the P.F.C.

Starting from one of the main objectives of the financial management control organized and exercised at the level of a public interest entity, that of verifying the observance of the “*legal provisions in the execution of the revenue and expenditure budget of the economic operator and its subunits, following: [...] the realization of the revenues and the classification in the level of the approved expenses;*” (Art. 2, letter c., Point 1, GD no. 1.151/2012) was analysed in Chapter X “*Substantiation data*” presented at the approved BVCs related to the years 2018, 2019, 2020 and it was found that they were not the approved indicators were achieved as follows: “*The average monthly earnings per employee (lei/person) determined on the basis of adjusted salary expenses*” was exceeded while “*Labour productivity in value units on total average staff (thousand lei/person)*” no has been achieved, the situation

being presented in the table below:

Table 1. Comparative Analysis of the Indicators Approved by the Annexes to the B.V.C. at the Entity Studied for the Years 2018, 2019, 2020

Year	Average monthly earnings per employee (lei/person) determined based on adjusted salary expenses			Labour productivity in value units per average total staff (thousand lei/person)			Number of staff forecasted at the end of the year (thousand lei)		
	Approved	Realization	Overtaking %	Approved	Realization	Non-realization %	Approved	Realization	%
2018	5.307.75	5.426.54	102.24	1.129.12	1.097.60	97.21	2.110	2.112	100.09
2019	5.427.97	5.488.86	101.12	707.30	611.00	86.38	2.110	1.986	94.12
2020	5.532.40	5.854.00	105.81	725.27	678.95	93.61	2.083	1.980	95.06

Source: own conception

The analysis of the presented data summarizes the following:

- the average monthly earnings per employee (lei/person) determined on the basis of salary expenses was exceeded every year, while labour productivity in value units on total average staff (thousand lei/person), was achieved considerably below the approved value threshold and appropriated by the management of the public interest entity;
- In 2018 the indicator “Number of staff forecasted at the end of the year” was exceeded by 0.09% (2,110 - approved vs. 2,112 - achieved) in violation of art. 10, para (1), lit. a) of Ordinance 26/xxxx which provides: “(1) The execution of the revenue and expenditure budgets is made in compliance with the following rules: a) the salary expenses, the number of staff at the end of the year, approved by the revenue and expenditure budgets, represent maximum limits that cannot be exceeded” which constitutes a contravention according to art. 13, lit. (e) of Ordinance 26/2017, punishable by a fine from 5,000 lei to 10,000 lei;
- at the level of 2020, the indicator Gross result (profit/loss) was not achieved according to the Government Decision on approving the revenue and expenditure budget for the year xxxx of the public interest entity, respectively it registered an annual loss of 27,426.98 thousand lei 3.33 times higher than the loss approved by BVC, respectively 8,236.10 thousand lei.

Table 2. Timesheet

The image shows a screenshot of an Excel spreadsheet titled "Timesheet January 2021". The spreadsheet is organized into columns for days of the month (1-31) and rows for employees. The columns include "Name", "Hourly norm", "Total norm", "Total time", "Total time in jobs", "Total work", "Fees", and "Bio price". The data is presented in a grid format with various numerical values and some text entries.

Source: own conception

Exceeding the number of staff and salary expenses led us to check how to exercise the P.F.C. in terms of staff costs, requiring a consistent set of financial-accounting documents. Thus, a first document requested was the timesheet which is drawn up either on the basis of the conditions of presence or of the electronic card by which the records of the hours worked daily by each employee are kept. At the same time, the timesheet highlights the name of the employee, the hourly norm for each month, the hours worked daily by each employee, overtime or holidays, days of medical leave or rest leave, presented according to the table above.

At the same time, the Collective Labour Agreement (C.L.A.) in force, the Individual Labour Contracts (I.L.C.) and the additional documents to the I.L.C.s were checked, whose structure is included in the C.C.M. of the studied public interest entity.

The payroll/payment list are the verified documents and represent those financial-accounting documents prepared according to the requirements of *Order 3,512 of November 27, 2008* and on the basis of which the salaries of the employees of the public interest entity are transferred. It should be mentioned *that the payrolls are kept for 50 years in the archives of the public interest entity* (Art. 25, Law 82/1991).

The payroll is drawn up monthly and is based on employee timesheets, documents by which the monthly contributions are retained, advance lists (where applicable), approved leave requests, medical certificates, etc. and is presented as in the table below:

Table 3. Payroll for March

Basic Data		Salary	No. Hrs	No. Hrs	Salary	Management	Total	Security	Fidelity	Gross	CAR	Health	Income	Tax	Total	Post of			
No.	Name and Function	Rate	Basic	Actual	Rate	Allowance	Basic Salary	%	%	Income	2%	10%	Tax Base	10%	Payment	Payment			
1		6,120	184	184	6,120	45	2,534	8,874	25	2,219	7	621	13,714	2,929	662	8,123	812	4,405	7,363
2		5,418	184	184	5,418		5,418	23	1,142	7	381	6,962	1,741	662	6,559	498	2,359	4,183	
3		5,329	184	184	5,329		5,329	19	789	7	373	6,501	1,629	662	4,214	421	1,708	3,793	
4		4,837	184	184	4,837		4,837	18	871	7	339	6,047	1,512	662	3,873	387	1,561	3,480	
5		5,793	184	184	5,793		5,793	24	1,342	7	505	7,724	1,542	662	6,520	471	2,537	4,657	
6		4,500	184	184	4,500		4,500	17	767	7	319	5,586	1,119	662	2,949	209	1,181	2,654	
7		2,900	184	184	2,900		2,900	12	348	7	300	3,548	719	662	1,813	181	1,669	1,682	
8		2,950	184	184	2,950		2,950	12	354	7	307	3,777	754	662	2,171	217	1,823	1,954	
Grand total		37,468			37,468		48,222	6,971	2,817	58,816	13,594	5,184	32,216	3,238	31,028	38,990			

Source: own conception

In addition to the financial-accounting documents already mentioned, the monthly statements of the payrolls were also subject to verification.

According to the operational procedures and internal provisions, we found that at the level of the public interest entity, the P.F.C. is exercised both on the payrolls and on the monthly centralizers of the payrolls for which predefined Checklists are drawn up, as can be seen in the table below:

Table 4. Check – List

Source: own conception

Based on the analysis of data and information contained in the documents mentioned during the practical application, we formulate some opinions that can contribute to improving the indicators related to salary expenses, but also to increasing the relevance of financial-accounting information, as follows:

- in order to ensure compliance with the budgetary limits regarding personnel expenses, it is recommended that the additional documents to the I.L.C. to be presented with a P.F.C. visa;
- tracking the number of staff for the current year

Table 5. P.F.C. Register

No.	Name of the operation, no./Date of issuance of the document	Content of the operation	Issuing department of the operation	Date of presentation of the operation visa	Value of the operations for which the visa was granted	Value of the operations for which the visa was refused	Date of return of the operation	Name and surname / Signature	Observations
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									

Source: own conception

4. Personal Conclusions and Considerations

The concern for financial control is to manage resources as efficient, effective and economical as possible, thus avoiding radical interventionist decisions that converge with the measures of the authorities, which in fact should be geared towards a consistent set of stimulating public policies. At the same time, it is absolutely necessary for all managers of public interest entities to act in a transparent manner, to apply clear rules in a unitary way, but especially to adopt rigorously substantiated decisions by capitalizing on all the valences of financial-accounting information. Moreover, state authorities must be *"hand in hand"* with the management of public interest entities and the business environment in order to ensure a feasible balance between nationally applicable solutions and the benefits of the international free market.

The critical analysis of the way of exercising the preventive financial control at the level of the studied public interest entity highlights the fact that it must be developed and adapted to the specifics of the activity as it results from the presented case, respectively, to ensure compliance with the budgetary limits regarding the staff costs is recommended that the additional documents of the I.L.C. to be presented at the P.F.C. visa.

References

*** (2014 – 2020). *Manualul de procedură pentru controlul financiar preventiv propriu/ Procedure manual for own preventive financial control*. Ministry of Agriculture and Rural Development, D.G.P.-A.M. P.O.P.A.M., P.O.P..

Albu, C. N.; Albu, N. & Feleagă, L. (2012). *Contabilitate, control și guvernanță/ Accounting, control and governance*. Author takeover: Albu, Cătălin Nicolae. Bucharest: Economica Publishing House.

Boulescu, M. (2007). *Control financiar-fiscal/ Financial-fiscal control*. Second edition. Bucharest: Fundația România de Măine Publishing House.

Feleagă, L. & Bătae, O. M. (2020). Guvernanța corporativă în societățile listate și controlate de stat din sistemul energetic românesc/ Corporate governance in listed and state-controlled companies in the Romanian energy system. *Financial Audit Journal/ Financial Audit Journal*, XVII, No. 2(158)/2020, pp. 294-308. <https://auditfinanciar.cafr.ro/wp-content/uploads/2020/04/AF-2-2020-Site.pdf>.

Karmanova, T. E.; Podsevalova, E. N.; Mityurnikova, L. A.; Silaeva, A. A. & Atamanova, M. A., (2018) *Peculiarities of Improving Internal Financial Control in the Russian Corporations*. <https://www.ceeol.com/search/article-detail?id=535525> .

Zavalko, N. A.; Panina, O. V.; Kovalev, V. A.; Zhakevich, A., G. & Lebedev, K. A. (2017). *Improving Financial Control over the Government System/21/02/2017*. <https://revistaespacios.com/a17v38n29/a17v38n29p15.pdf> .

Legislation:

*** (2002). Law no. 500 of July 11, 2002 on public finances, as subsequently amended and supplemented. Published in the *Official Gazette* no. 597 of 13 August 2002.

*** (2012). Decision no. 1151 of November 27, 2012 for the approval of the Methodological Norms regarding the organization and exercise of the financial management control. Published in the *Official Gazette* no. 808 of December 3, 2012, issuer: Government of Romania.

*** (2016). Order no. 923 of July 11, 2014 for the approval of the General Methodological Norms regarding the exercise of preventive financial control, issued by the Ministry of Public Finance, republished, with subsequent amendments and completions. Published in the *Official Gazette* no. 28 of January 15.

*** (2015). Order no. 2634 of December 2015 on financial-accounting documents, issued by the Ministry of Public Finance. Published in the *Official Gazette* no. 910 of December 9.