

INSTITUTIONS RESPONSIBLE FOR AUDITING AND CONTROLLING PUBLIC RESOURCES

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Abstract: To successfully deliver public goods and services in order to meet the needs of a society in a continuous growth, it was necessary to establish public resources available to the public sector. The formation of financial resources at the disposal of the state and their distribution to different institutions to cover the public needs is presented through the procedures used for the allocation of resources, with a strong emphasis on the relationship between the budgetary revenues and expenses. The traditional view of public finances emphasizes public spending, which means obtaining resources in advance to cover the needs, without considering their impact on the life quality of citizens. The modern view on public finances is focused especially on the effects that public expenses generate on the society as a whole.

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1. INTRODUCTION

This article will present how public funds are managed and which is the destination of public expenditure, emphasizing that public financial resources are constituted and managed at different levels of the public administrations, within the budgets realized by those.

All the activities of protecting the financial resources, identifying the responsibilities of the actors directly involved in the formation and use of public funds, as well as the orientation towards performance, are the responsibility of the public audit and this is performed by the Court of Accounts of Romania - the external public

audit, the departments of internal public audit - internal public audit, the Directorate-General for Economic-Financial Inspection and the Directorate-General for Preventive Financial Control within the Ministry of Public Finance.

2. OBJECTIVES

The objectives are oriented towards identifying the main functions of the public sector and the main categories of public funds, as well as presenting the institutions specialized in controlling and auditing the use of public funds.

3. METHODOLOGY

Following the previously discussed topics, this paper gives a framework for planning, management, control and auditing of the economy, efficiency and effectiveness of public funds. The research instruments we used to achieve the results are based on the data collected from the Ministry of Public Finance in Romania and Romanian Court of Accounts, and the scientific literature.

The main question addressed in this paper is "Who is responsible for controlling and auditing the use of public funds?".

4. MANAGEMENT AND USE OF PUBLIC FUNDS

Within the Ministry of Public Finance there are three main units involved in the elaboration of the budget:

- General Directorate for Budgetary Synthesis deals with aggregate allocations for government functions and organizations. General Directorate for Budgetary Synthesis plays an important role in the budget execution, manages the release and planning of liquidities/cash, schedules the expenses and elaborates the budget;
- General Directorate of Macroeconomic Analysis and Financial Policy deals with macro-fiscal planning, its main activities being the elaboration of revenue estimates and drafting the convergence report for the European Commission;
- General Directorate for Expenditure Programming deals with the collection, analysis and reconciliation of budget requests from the ministries. The General Directorate for Expenditure Programming is organized on the basis of portfolio lines allocated to several sectors, respectively administrative, social and economic ones.

Among the key priorities of the Romanian Government is the reform of income management (Banca Mondială - Regiunea Europa și Asia Centrală, 2010, p. 42-43). There have been numerous initiatives aimed at collecting all taxes and social contributions by a single institution, specifically the National Agency for Fiscal Administration. In order to improve the system, fiscal inspections based on risk analysis, online filing and electronic payment filing systems were introduced and a call center line was made available. All the activities of income management are assigned to the National Agency for Fiscal Administration, being responsible for managing all the income obtained at national level from taxes, such as: VAT, income tax for natural and legal persons, customs taxes and social contributions.

According to tax administration practices, Romania implements the principle of segmentation of taxpayers (large, medium and small taxpayers) for the efficient approach of taxpayer groups and the management of internal resources. Therefore, it

was necessary to segment the taxpayers according to their size, this measure aimed at directing a greater number of human resources to the tax payers to whom more attention should be given due to the high volume of taxes and the risk of tax evasion.

The expenditures to be made by the competent public authority from the state budget, from the local budgets and from the special funds, aimed at satisfying the demand for goods and services of the community, represent public expenses. These represent in fact economic-social relations in the form of money, which occur between the state and natural or legal persons in order to redistribute and use the financial resources of the state, thus the state fulfilling its tasks (Bistriceanu, 2007, p.83).

It is extremely important to keep in mind that these public expenditures should not be confused with budgetary expenditures. In fact, public expenditures sum up the expenditures that are realized from the state and local budget, but also from special funds, respectively the funds held by the national companies, the state-owned companies and the autonomous/self-directed administration. Unlike the public ones, budgetary expenditures sum up only the expenses that are financed from the state budget and from local budgets, these being only a part of the public expenses.

Next, the factors that have a strong influence on the growth of public spending will be presented (Moşteanu, 2000, pp. 85-86):

1. The first category of factors are the demographic ones, who imply that the change of population, respectively its increase (by increasing the birth rate), will lead to modification of the society structure by age and socio-professional category. This evolution may lead to an increase in public spending for the health system, education system, public order and security system.
2. Economic factors influence the development of economy through scientific research, based on them being established and fulfilled new requirements for the use of resources and innovation of the goods and services production processes.
3. Other factors that can influence the increase of public expenses are the social factors that, by increasing the average income per capita, compel the state to allocate resources in order to balance the incomes of the different social categories that carry out their activity in the public sector, including the elderly or those who need social assistance.
4. Military factors have a strong influence on the increase of the public expenses, since the preparation or carrying out of the armed conflicts will lead to the increase of expenses for defense and social security, after the conclusion of the wars being necessary to allocate some funds to eliminate the adverse effects produced at socio-economic level.
5. Historical factors are considered factors that generate increase of the expenses because it is transmitted through them, from one historical period to another, the increasing need to spend, but also to support the coverage of expenses made in previous years through public loans. Growth of the degree of urbanization leads to the increase of public expenditure, by means of them being set up and developed the urban centers, as well as different public units (information points, cultural centers)

In the international financial literature and practice there are numerous criteria for classification of expenses:

Table no. 1 Criteria for expenditure classification

Classification of public expenditure	
Classification by organizational form:	<ul style="list-style-type: none"> - expenses without consideration (definitive financing, without a counter-service from the beneficiary) and expenses with consideration (collection of amounts by the state, by respecting the conditions under which these expenses are realized, for example the interest on the loans granted); - definitive expenditure (not involving repayment of amounts allocated); - provisional expenses (they are represented by loans and advances, followed by the reimbursement of the obligation of supply for the state's products and services); - special expenses, aimed at financing a particular sector; - global expenditures, which influence the overall economic balance.
Financial classification:	<ul style="list-style-type: none"> - which is made according to the moment and the manner in which the public expenditures influence the state's financial resources. - definitive expenses, through which the distribution of financial resources can be completed, these including investment expenses and operating expenses; - temporary expenses, as a result of which there is no immediate exchange of goods, being called treasury operations because they are highlighted in the special treasury accounts; - virtual (possible) expenses, being those expenses that the state undertakes to realize only under certain conditions, respectively the guarantees granted for loans that can lead to public expenses only if their reimbursement from the resources that have been specially created cannot be met.
Classification of public expenditure by economic content	<ul style="list-style-type: none"> - expenses for the accomplishment of social reproduction, through which the self-directed administrations, the state companies and the companies with state capital are financed; - expenses for the establishment of state material reserves.
Classification of public expenditure used by ONU institutions:	<ul style="list-style-type: none"> - functional classification of public expenditure: education, health, social security, defense, recreation, culture, religion; - economic classification of public expenditures, namely expenditures representing final consumption: capital transfers, operating subsidies, gross capital formation, acquisition of land and intangible assets, public debt interest.
Classification of public expenditure according to the role played in the process of social reproduction:	<ul style="list-style-type: none"> - real or negative expenses, these constitute a definitive consumption of the gross domestic product (expenses with the armament acquisition, payment of the state loans' interests and commissions); - economic or positive expenses, these summing up investments for development and modernization, their purpose being the creation of added value; they represent an advance of gross domestic product.
From the point of view of the state's responsibilities	the expenses can be classified according to the type of spending on: economic activities; defense of the country; maintenance and functioning of state bodies/institutions; social-cultural actions.

Source: Authors' projection based on Moșteanu, 2000, p. 88; Bistriceanu, 2007, p. 318.

It is worth mentioning that these groups of expenses vary from one period to another, being dependent on the objectives of economic, social and cultural development, these having a decisive role in determining the structure and weight of public expenditures.

Expenditure cycle consists of the following stages (Allen & Tommasi, 2001, p. 284):

- ✚ Sharing of allocations/release of funds to units that spend. In order to ensure an effective and efficient implementation of the budget, the authorization of expenses must be granted to the agencies on time, through tools such as budget implementation plans or guarantees.
- ✚ Commitment. The commitment phase is the one in which a future payment obligation is assumed. It implies the obligation to pay when a third party has complied with the provisions of the contract. At the commitment stage it is necessary to certify that the proposal for spending the money has been approved by an authorized person, the money has been allocated in the budget for the stated purpose and in the relevant category of expenditure sufficient funds remain available and the expenditure is proposed to the correct category, being necessary the existence of the systems of administration of the commitments for several years.
- ✚ Purchase/verification. At this stage the goods are delivered or the services are provided and they are checked if they are in accordance with the contract or order. Government assets and obligations are accumulated and recorded in the accounts, if the country has an accrual-based accounting system. Expenses at the stage of verification involve an obligation. When delivering goods or services, the documentary records of receipt of goods and execution of services must be verified.
- ✚ Payment. At this stage, the payment is made, but before it is done, it is necessary to confirm by accounting controls that those expenses are made correctly and that a competent person has signed for the receipt of the goods or the execution of the services according to the expectations, and the invoice and other supporting payment documents are correct, the creditor being correctly identified. After the payment is made, it is necessary to examine and record the expenditure made and report the irregularities, if they have been identified.

To track transactions at each stage of the spending cycle, a complete accounting/budget accounting system is required. Maintaining control over the commitment requires effective control of the use of allocations in the commitment stage, the correct budget formulation to ensure compliance of commitments with the budget forecasts, the control of multi-year commitments and internal control systems.

As public revenues have remained below their level before the economic crisis, it is necessary to improve the prioritization and endorsement of expenditures through which the consolidation effort is sustained, thus ensuring funding for government priorities. In our opinion, it is vital to realign and rationalize the public spending so that the expenditures with reduced priority are eliminated, this being the only way that savings can be obtained in the public sector. The latter can be oriented primarily on investments, based on which productivity and competitiveness are developed. Through the analysis carried out in this paper, we have identified opportunities for prioritizing expenditures in many areas where the public sector has a central role. For example, in the field of education it is necessary to increase the number of students in each class, thus reducing the number of teachers who can be better prepared, this reducing the

recurrent and capital expenditures. In the agricultural field, the funds must be directed towards the medium-sized farms and the rural infrastructure, this leading to the development of this sector and the increase of productivity in this economic sector. In the field of transport, it is necessary to allocate funds to improve the infrastructure (in the case of road transport through the construction of highways and the rehabilitation of national roads, and in the case of rail transport through the rehabilitation of railways and passenger cars). On the other hand, in order to save funds, it is necessary to reduce the numbers of feasibility studies for the purchases of fixed assets since they do not benefit the public sector.

5. CONTROL AND AUDIT OF PUBLIC FUNDS USE

For the implementation of the budget system, a number of principles are taken into account (Caraiani & Dumitrana, 2005, p.93), the principles regarding the budgetary control being described below. The first principle is represented by the monitoring of budgetary provisions; through it the budget managers constantly check and compare the budget estimates and the results obtained in order to detect errors. The second principle aims at reconciliation through the flexible budget; through it are provided estimates that can be modified, thus representing a costs control tool. The third principle concerns the analysis of deviations; through it the value is calculated and the causes that have produced the differences between the actual amount and the budget are identified. The last principle consists in the creation of a system of periodic reports on performance and involves identifying the solutions and adjusting the data for the next budgetary cycle.

Internal controls reflect the responsibility with which the management of an organization deals with its activity and resources. In the case of traditional approach, the internal control was oriented towards financial control and processes specific for public administrations, but nowadays the internal control is oriented towards the results obtained by those, aiming at the achievement of the three E's: economic, effectiveness and efficiency.

Other key elements of effective financial control systems are: the existence of a central ministry, namely Ministry of Finance, responsible for the emergence and resolution of all financial problems, the application of accounting, financial reporting and internal audit standards, delegation of responsibilities for organizational units and civil servants, the existence of effective control systems and procedures prior to the occurrence of expenditure and transparent financial reporting procedures for all entities in the public sector, those being under the external supervision of Parliament and subject to an effective public sector external audit.

Next, we consider useful to present internal control classification, which can be found in four forms (Ministerul Apărării Naționale și Agenția Națională a Funcționarilor Publici, 2012, p. 114).

- ✓ The first form is the ex-ante control, which also carries the name of preventive control, being carried out to ensure that, before the scheduled activities, all the premises for obtaining the desired results are found.
- ✓ Recovery control or cyber control being carried out to identify the deviations in the different stages of the processes and activities.
- ✓ The third form is the control strainer or the Yes/No control. It performs analyzes in the essential stages of the process and approves or rejects

certain activities, taking into account the comparison between the results obtained and the standards established initially.

- ✓ The last form of control, playing a very important role, is the ex-post control, through which the final results of the performed activities are monitored, because they correct the unfavorable events that are present in the cyclical processes, based on the premise that future deviations that will manifest themselves in similar situations will be generated by the same causes.

Since internal controls should be designed for the individual circumstances of the entity, there is no universally applicable list of controls. However, it is possible to describe some categories of controls that can be applied and adapted, taking into account the institution's characteristics, namely performance monitoring, accounting and financial reporting and effective communication, as staff will always have a better performance if they know the organization's mission and objectives and the direct purpose of their activities.

In addition to the responsibility of meeting the objectives, the department heads must ensure that the resources are not used incorrectly and for that they can use a variety of means. Physical controls are a means of control, including security procedures designed to control access to accounting records, which have high economic value within the organization but can be easily stolen or frauded. The accounting controls are used frequently, requiring that all the procedures by which the transactions are carried out to be recorded in the accounting system. For example, an accounting control is applied to expenditure by comparing them with the budget. Expenses that differ from the original model are reported, while those that exceed the allocated budget are blocked. Process controls are necessary because they include procedures for control, that is, actions are taken only after proper authorization. For example, in order to issue a purchase order or to approve a contract, it is necessary for the documentation to be drafted by the official making the request, to be analyzed by the official dealing with that type of procurement and to be approved by a superior authority. It should be noted that payments to contractors require supporting documents, namely the purchase order, the voucher from the contractor describing the goods and services to be provided and a certificate from the official receiving them, thus confirming their receipt. Other methods of control are the controls on supply, separation of obligations (in any activity being necessary the presence of at least two people, to minimize the risks) and internal audit, this being a concept that derives from that of internal control, being an objective and independent activity realized for obtaining added value and improving the activities carried out (Allen & Tommasi, 2001, p. 271).

According to Law no. 672/2002 on internal public audit, it can be defined as the functionally independent and objective activity that gives assurances and advice to the management for the good administration of public revenues and expenses, perfecting the activities of any public entity. Internal public audit helps the public entity to achieve the objectives set, through a systematic and methodical approach that facilitates the evaluation and improvement of the efficiency and effectiveness of its management system. Public internal audit is not synonymous with internal control although they are often confused. Internal control, according to the same law mentioned above, represents all the forms of control that are exercised at all levels of public entities, including internal audit. These forms of control are established by the top management in accordance with the objectives and laws in force, with the purpose of

ensuring the proper management of the funds. Internal public audit contributes to the effective management of public funds. The mission of internal public audit unit is auditing the control systems within the public entity aimed at evaluating the effectiveness and performance of the functional structures in implementing policies, programs and actions in order to continuously improve them (Ministerul Finanțelor Publice, 2018, p.3). Their objectives are: to improve the operations' efficiency and effectiveness, to improve the quality of management, control and audit, to provide accounting records and IT management, to ensure a good monitoring of the conformity of public entities' activity with the procedures and legislation in force, to handle the administration and preservation of assets, to perform risk management and to offer support to public entities with the help of opinions and recommendations.

The objectives of internal public audit commitments are: to ensure the conformity of procedures and operations with the legislation in force (regularity audit), to evaluate the results if the objectives have been met, to examine the effective impact (performance audit) and to evaluate the systems of management, risks and internal control (system audit) (Curtea de Conturi a României, 2016, p.79).

According to art. 4 of the Law on public internal audit, it is organized in the following structures (Ministerul Finanțelor Publice, 2018, p. 6-7; Xhani et al, 2019, p. 478):

- ❖ The Central Harmonization Unit for Internal Public Audit is a distinct structure within the Ministry of Public Finance, consisting of specialized compartments and having coordination, evaluation and synthesis tasks in the field of internal public audit activities at national level. The unit also carries out internal public audit activities with multisectoral implications.
- ❖ The Committee for Internal Public Audit is a consultative body, made up of 11 members, specialists from outside the Ministry of Public Finance and has a role in supporting the Central Unit in the activities of defining the strategy and improving the internal public audit activities in the public sector.
- ❖ The internal audit departments within the public entities are considered basic functional structures in internal public audit, performing the function of internal public audit at local level.

The Court of Accounts plays a very important role in reporting the way in which the public resources have been used, thus increasing the accountability and transparency in the spending of public money. The Court of Accounts can perform three types of external public audit, respectively (Curtea de Conturi a României, 2019, p.16):

- ❖ Financial Audit – by means of which the Court of Accounts deals with the verification of financial statements, respectively whether they are complete, correct and in compliance with the legislation in force, being formulated opinions in this regard;
- ❖ Performance Audit – by means of which the Court of Accounts deals with the evaluation of how an entity, a project, a process works, taking into account effectiveness, efficiency and economy;
- ❖ Compliance Audit – by means of which the Court of Accounts deals with verifying the activity of public institutions, in terms of complying with the laws and regulations in force (Curtea de Conturi a României

2011, p.61). In 2017, compliance audits were carried out on five priority areas that included several topics, the areas being: administration of budgetary revenues, public spending, governmental public debt, local public debt and property management (Curtea de Conturi a României, 2019, p. 18).

According to the opinion expressed by Xhani & Iliescu (2018, p.59) in the article "Coordination of Audit Work between Internal and External Audit", it can be said a relevant legal framework creates the appropriate prerequisites for the cooperation and mutual coordination of external and internal public audit activity so to promote a good use of public resources in order to increase the credibility of auditing.

Directorate-General for Economic-Financial Inspection is organized and operates at the level of general directorate, subject to the Minister of Public Finance. It is organized as a:

- economic-financial inspection service;
- financial inspection service;
- European funds inspection service.

The Directorate has different tasks for all three services, but there are also common tasks, namely the organization of the economic-financial inspection activities and the carrying out of control activities, taking into account the fulfillment of the inspection objectives (in case there are deviations of fiscal nature, National Agency of Tax Administration is notified). General Directorate of Economic and Financial Inspection plays an important role in formulating proposals for the improvement of inspection methodologies and procedures (Ministerul Finanțelor Publice).

General Directorate for Preventive Financial Control is organized and operates like the Economic-Financial Inspection one, under the subordination of the Ministry of Public Finance. It is organized in the form of three preventive control services and the Information Support Department of Delegated Controllers Body. This directorate has responsibilities regarding the exercise of financial control, which are made by the delegated controllers. It also monitors the financial activities of public institutions, prepares the annual financial control report and proposes measures to improve the legislation in the field (Ministerul Finanțelor Publice - Direcția generală de control financiar preventiv).

6. CONCLUSIONS

Because financial resources are collected, managed and used, a control over all the activities carried out at the level of public institutions is necessary, control performed by means of auditing, in its two forms: internal audit and external audit. The need to carry out audit activities on the formation and use of public resources arises because it is vital for their continuous monitoring, verification and analysis, given that public institutions carry a very large volume of public funds. The need to prevent abuse, mismanagement and combating the misuse of public funds has imposed the necessity for internal and external audit. The audit, regardless of the form in which it is carried out, is emphasized by the impact of internal control activities on the performance of public entities.

The essential characteristics of control systems in the public sector are risk identification, development of internal control systems and procedures for counteracting the perceived risks and the establishment of internal audit procedures to ensure that internal control systems counteract the perceived risks and identify risks

uncovered, or the ones not properly covered by the existing systems and procedures. In order to implement and maintain effective internal controls, the top management of any organization must be dedicated to the effective management of the entity and should demonstrate integrity and professionalism. Only if there is a responsible and dedicated management of the organization is possible to set up and maintain an effective control system.

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