

THE ANALYSIS OF THE FINANCIAL FLOWS RESULTING FROM PUBLIC SECTOR EXPENDITURES AND THEIR IMPACT ON ACCOUNTING

Guni Claudia Nicoleta¹

Abstract

Incurring expenditures through the State Treasury, by public institutions, is carried out in two ways: by cashless payments, when the Treasury, based on the payment order issued by the authorizing officer, after the necessary checks have been conducted, orders payments from the institution's account to suppliers, service providers, etc., or in cash, when, at the request of that public institution, the Treasury issues the requested cash.

Keywords: *National Payments System, subsystem for bilateral netting of payments, subsystem for gross settlement, net settlement.*

1. Introduction

In accordance with the legal provisions in this field concerning the duties of the National Bank and the State Treasury, the general account of the Treasury is managed by the National Bank of Romania, in which context the operations carried out are subject to regulations imposed by the National Payments System, established by the Central Bank.

Within this system, called Return National Bank of Romania, operate six sub-systems of interbank transfers and settlements, operationally dependent but open, in principle, to the developments requested by a payment in progress, through which, in 1997, there have been settled intermediary, final and irrevocable payments and receipts worth 3.300.000 billion lei.

From the specialized literature, it results that out of the six sub-payment systems organized by the National Bank of Romania, two systems form the basis of the operations through the General Account of the State Treasury namely: the sub-system of bilateral netting, net settlement payments, referred to briefly (COBI) as of 03.04.1995, for the payments and receipts operations, regarding the consolidated general budget execution; and the gross settlement sub-system, at the end of the day, of the banking transactions, briefly called (DETI), for the receipts and payments operations concerning the issuance of government securities.

The main characteristics of the two sub-systems required for payment and receipts transactions of the State Treasury in the process of establishment and use of public funds are:

The sub-system of bilateral netting of payments with net settlement (COBI), means establishing some combinations of two participants for whom there are carried out transfers of funds, one of which is necessarily the National Bank of Romania and the second one, in our case, the State Treasury. The net settlement assumes determining the net debtor or creditor balance of operations, after compensation between the two partners was made.

2. The analysis of financial flows resulting from transfer payments and their representation in accounting

Cashless payments operations occupy a significant share in the Treasury's activity, as they are the main financial flow created during the implementation of the state budget, of

¹ Spiru Haret University, borsanclaudia@yahoo.com

the state and local social insurance budgets, of special funds and other extra-budgetary means.

The most complete definition of the National Payment System established by the Central Bank is given by Committee of Governors of the Central Banks of the Member States of the European Economic Community Parliament Systems in E.C., Member States; in September 1992, thus: The bilateral netting system with net settlement is a system in which the bilateral net balances belong to each participant to a bilateral combination (n.r. funds transfer) and are settled only between its components. By bilateral net credit or debit balances, in a system of bilateral netting with net settlement, it means that the sum of all transfers of funds that a participant receives up to a point, from another participant, less the value of transfers that he makes himself to the same participant; if the amount is positive, the respective participant is in a net creditor position or if the amount is negative he is in a net debtor position towards the other participant, the net credit or debit balances thus calculated are called, at the time of settlement, the net balances to be settled.

This sub-system ensures:

- ☒ Regular issuance of banknotes and coins;
- ☒ Holding the general current account of the State Treasury;
- ☒ Conducting the operations of receipts and payments between banks.

The second sub-system of gross settlement, at the end of the day, for all banking transactions, (DETI), is used to conduct the financial investments of the State Treasury and it assumes that the final and irrevocable settlement of payments to be made only if in the accounts of the participants, at a certain moment during the day, there are available funds or guarantees. If affirmative, the final settlement takes place based on the aggregate gross, not as in the other sub-system described (C.O.B.I.). Otherwise, the payment is rejected and then accepted, on the principle "first in - first out".

This sub-system only works at the Central Bank level, through current accounts opened here by the Commercial Banks and the State Treasury compared to other sub-system (C.O.B.I.) which also works at the level of county branches of the National Bank of Romania, on the occasion of the execution of settlements in the current account of the county Treasuries and Bucharest Municipality.

The financial flows that arise on the occasion of carrying out such payments in the process of using public funds, by the public institutions, take place:

1. within the same Treasury, called internal settlements of the Treasury;
2. between the operational Treasuries within the county, called settlements in between Treasuries ;
3. Between the Treasuries in the county and the Commercial Banks, called interbank settlements of high or low value
4. between the operational Treasuries in the country, called settlements in between Treasuries;

With the exception of flows within the same operational Treasury, in achieving the payment flows, also participates the County Department of Treasury, operating the payments in the debit of the correspondent account of the paying Treasury, through the correspondent account of the beneficiary Treasury and the account "settlements with the National Bank in initiated transactions" for payments to Commercial Banks and Treasuries from other counties.

Cash payments shall be made using the payment order prepared by the paying public institution, that they show to the Treasury it serves. The exceptions are the refunds of budget revenues for which the payment order is drawn up and signed by the staff of the Treasury that makes the refund. This should contain all the data related to the identification of the paying institution, fiscal code, beneficiary of the amount, the amount, payee's bank,

the subject of payment, documents underlying this settlement as well as authorized signatures.

Filling the payment order with the above data, is verified both by the Treasury operative staff and by the staff in the current account management department within the county Treasury Department, because there cannot be released into the banking circuit improperly completed documents.

After presenting the payment order, the validation compartment within the operational Treasury analyzes the classification of the payment in the level of available budgetary credits or in the amount of the available funds account balance, from where the payment is made, and after it is accepted for payment it is operated in the indicated expenses account, by notifying the registration date, its copies being placed in accordance with the law.

1. The financial flows and their impact on the accounts determined by the payments by transfer between public institutions within the same Treasury.

The most complex financial flows determined by payments by the correspondents of the State Treasury occur within a municipal operative Treasury, county headquarters; therefore we propose for exemplification such unity. Within this unit there can be made payments that determine the following financial flows:

- within the same budget;
- between budgets;
- between budget funds, on one hand and special-purpose funds and extra-budgetary resources, on the other hand.

The financial flows, listed above, are determined exclusively by the payments that occur between the public institutions funded by the budget, or in between these, on one hand, and the public institutions financed from special funds or extra-budgetary means, on the other hand. In other words, the financial flows of this type are the result of the relationships that are established between the correspondents of the Treasury, is all those who have accounts with the Municipal Treasury and are the beneficiaries of its services.

Following the change of the financing system of health actions in an attempt to reduce the budgetary effort at the expense of special funds, there have been settled regular financial streams which have, as a starting point, the public institutions or the Treasury correspondents, through contributions to social health insurance, beneficiary is the Health Insurance, a self-financed public institution. Notable that in the case of these flows, along with the registration of the cash payments in the expense accounts of the paying public institutions from the Treasury's accounts, it also takes place the highlighting of the process of establishment of the public resources on behalf of these institutions, for the special funds budget of "social health insurance".

In other words, these financial flows determined by payments between the public institutions financed from public funds or between these and the self-financing public institutions do not alter the balance of the total resources of the Treasury, but translocate the resources from a budget or multiple budgets in that of "social health insurance".

▪ The financial flows and their impact on accounting determined by cashless payments between the public institutions that have accounts with different operative Treasuries, but within the same county

The flows of this type that are created by non-cash payments occurring between the public institutions within the same county, in relation to some deliveries of materials, providing services or transfer to the municipal Treasury, the county seat, of the amounts for the establishment of funds with special destination, from the public institutions served, on this occasion, there can be created flows that occur within the same budget, between the

budgets constituted from the budgetary funds, or among all of them, on one hand, and the special funds, on the other hand.

Therefore, in these cases, the financial flows, that occur during these payments between the public budgetary institutions and the non budgetary ones, located in different places within the county, do not modify the County Treasury funds. They can only make changes in their structure, when there are financial flows between budgets or between them and the special funds and the extra-budgetary resources.

▪ ***The financial flows and their impact on accounting, determined by non-cash payments, that occur between the public institutions and businesses.***

The largest payments performed by the public institutions are the ones made towards commercial companies, businesses on whose behalf they are beneficiaries of material values, services etc. This type of payments have as a starting point the Treasury, where they have opened expenses accounts, the public institutions or the Treasury's correspondents, then the current account of the Treasury from the National Bank of Romania and furthermore towards the system of the Commercial Banks where the recipients of payments have constituted their deposits. Outside the public institutions that make payments through Treasuries, there can be also found autonomous national or local administrations beneficiary of some budget funds or even commercial companies after the latest regulations in the field.

As in the case of the immobilizing of funds determined by the payment of taxes by economic agents, when public funds are found on flow a significant number of days, in the same situation are the amounts taken over by the Treasury from the component accounts of the general consolidated budget, for the payments ordered by the public institutions, which now do the reverse route to economic agents.

This void of public resources, determined by the interbank circuit is created due to the difference in time between the moment of operating the payments in the budget accounts (State budget etc.) arranged by the public institutions, the moment of their actual recording in the current account of the Treasury with the National Bank of Romania, and further to the interbanking flow National Bank of Romania - Commercial Bank branch in question - Commercial Bank Subsidiary where the economic agent has an account opened.

For the registration of a part of these assets, determined by the completion of payment documents on the route of the county Treasury – the National Bank of Romania, in the accounting of the county Treasury operates the account "Settlements on initiated payments" whose balance highlights the documents not operated yet, on the current account credit of the Treasury at the National Bank of Romania, but highlighted from an outflow of resources from the budgets through which are financed the public institutions concerned.

▪ ***The financial flows and their impact on the accounts determined by the payments that occur between public institutions located in different counties.***

Cashless transactions between public institutions belonging to the Treasuries located in different counties are rare and they usually concern payments for deliveries of materials, possible services, but more frequently are those caused by transfers of funds concerning customs warehouses etc.

The financial flows determined by such payments change the balances of the financial resources of County Treasuries by reducing those from the Treasury of the county that pays and increasing the resources of the beneficiary county Treasury. Overall, the resources of the Treasury, at "national" level, the situation remains unchanged, there may possibly occur also in this case, changes in the Treasury Resource structure, on the component budgets of the general consolidated budget.

In some cases, the financial flows determined by the payments of public institutions towards others from different counties, overlap with the financial flows leading to the establishment of public resources in the beneficiary Treasuries which we have referred to in the respective chapter, for which reason we consider that it is no longer necessary to return with more details on them.

3. The analysis of the financial flows determined by cash payments and their representation in accounting

In the current system of payments, the cash represents the most reliable currency category by means of which the debtors settle their obligations towards their creditors, nevertheless, in the developed countries, the tendency in this direction is irrevocable, in order to replace the cash, even in the case of small payments. Moreover, based on the achievements in computer technology, also the current transactions, settled by the cashless payments system on paper will soon transform in fully computerized transactions.

With all the existing tendency worldwide, in this field, Romania today is a society dominated by cash, huge amounts of cash circulating from the population to the banking system and conversely, where we include the State Treasury and between these (Commercial Banks + Treasury) and the National Bank of Romania, due to this fact, outside the banking system, remain significant amounts of cash, which makes a lot more difficult the decision making process, concerning the regulation of money supply.

We consider that the Romanian authorities in the field, have achieved little in this respect, the beginning of this action being, maybe, the payment of wages in personal accounts, opened at Savings Bank units or at Commercial Banks. From these deposits, then, being able to make cashless payments towards the service providers, public sectors of the population, tax payments to the budget etc.

The releases of cash, performed by the Treasury's operating units, are determined, especially by the public sector wage payment and to a lesser extent for small payments by the public institutions through their own cash offices, regarding purchases of materials, services etc.

The releases of cash by public institutions served by Treasury units that do not have organized cash offices is done based on county Treasury mandate by a Commercial Bank agreed on, usually from the operative Treasury's town, and in exchange, the Treasury transfers to the respective Bank the cash accounted for (scriptural).

The simple cash release, by the operative Treasury to the respective public institutions

does not immediately require an expense, although in the Treasury accounting this cash transaction release appears as an "expense" to the budget from which the amount is released.

Cash releases to the public institutions or its correspondents lowers the total resources of State Treasury, with the actual nomination of these decreases on budgets composing the general consolidated budget, but still to this moment, the event does not mean an expense for the state budget as the Treasury accounting suggests. These resource reductions of the State Treasury determined by cash releases usually occur without transactions through the General Account of the Treasury with the National Bank of Romania. Only in the event that the volume of these requests for cash withdrawal exceeds the cash available in the cash office of the Treasury, the treasuries are required to appeal to the National Bank of Romania to procure the difference in cash, in which case, for these additional amounts of cash, appear also the debiting operations of the Treasury account with the National Bank of Romania for the cash withdrawals in question.

Taking as example the practices in developed countries, where the Treasuries are more involved in the monetary policies of the state, with favorable consequences on supporting the national currency, it should be done also for our country, through:

- correlating and managing the Treasury's activities in the process of establishing the resources, especially the short term ones, emphasizing from one stage to another the cash or cashless ones;
- the right of the Treasury to hold currency in the account because, if necessary, for the national currency, to be able to carry out interventions on the currency market;
- the right of physical and legal persons to hold bank deposits at the Treasury, to which we have referred before, from which to be able to conduct transactions without cash, would be an important means of attracting cash from circulation etc.

For the actual release of cash, the public institutions or correspondents present to the operative Treasuries the required documents for such operations (Check cash etc.). We will not go into details concerning checks and formalities to be fulfilled on this occasion, we only mention the fact that, in this situation, issuing currency, which for the Treasury represents a "cash pay", its authorities must conduct a thorough check of the existence of credits opened in the case of the state budget and the state social insurance budget and of the availability of resources – funds, in the case of local budgets, special purpose funds and the extra-budgetary means.

In order to exercise a more rigorous control over the progression of the operations of payments and receipts, although the rules on the organization of this activity in the Treasury does not regulate in a certain way how to proceed, we believe that in between the cash receipts, on one hand, and the cash payments, on the other hand, there must be a clear demarcation of the cash flow in order to avoid the possibility of mixing its two streams. Both receipts per / total, as well as the payments as a whole to have a direct connection only with the treasury cashier.

The requests for cash from the public institutions served by the Treasuries that do not have cash payments desks are solved by the Commercial Banks approved by the County Treasury Departments. In the case of these cash releases, the verification of documents is carried out by the operative Treasury, where the public institution in question has opened the account, after that, these are transmitted to the Commercial Bank for the release of cash.

The consequence of the cash activities, carried out by the State Treasury and each bank with its customers, results in deposit transactions, with the National Bank of Romania, of cash in local currency, when there are exceeded the limits set by the National Bank of Romania on one hand and, on the other hand, operations of withdrawal from the National Bank of Romania, in the case of insufficiency to make payments to their clients. Both deposit and withdrawal operations also generate cashless flows in the case of deposits, by crediting transactions of the State Treasury and the Bank's accounts, or of withdrawal, by debiting the same accounts.

In this process we also appreciate that, as the Central Banks in the developed countries proceed in implementing their monetary policies, to be possible for the National Bank of Romania to be able to put up for sale bonds that it keeps in its own assets, in exchange for cash equivalent amounts, but for this, it is necessary for the Romanian authorities to organize more appropriately the secondary markets of capital, where these could be traded.

4.Conclusions

The evolution of the payment systems through the State Treasury is closely related to the historical evolution of this institution and, certainly, with the progress in informatics, of

the technology of the actual payment instruments and by new means and ways of transferring financial funds related to financial obligations between business partners.

We consider that the sub-system of payments that uses the net settlement will have to be maintained and developed under the conditions in which it is expected that, as "the banking culture" will penetrate deeper and stronger among individuals, it will increase the number and volume of individuals' deposits at banks and hence the need for cashless payments from these deposits.

A decisive step, that should be made by the State Treasury on the path of improving its payment system within its units is the development of a mechanism allowing the transfer of payments and receipts operations between the County Treasuries, and between these and the Central Treasury. The transfer of counties payment transactions, between the territorial units of the State Treasury, to be achieved by avoiding the accounting records in the current accounts of the county Treasuries, at the branches of the National Bank of Romania, the purpose of these operations following to materialize only through the general account of the State Treasury opened at the Romanian National Bank.

The introduction of a payment system more or less perfected, depends, however, largely by the investment opportunities that the Central Bank has and the entire banking system, which does not exclude the State Treasury.

We consider that the decisive and immediate step to be made by the Romanian authorities and all those involved (the Central Bank, the State Treasury and The banks) in this area, is the reform in the cash payments field, by reducing operations of extinguishing obligations this way. It must be introduced "the banking culture" as stated by Mariana Diaconescu and Vasile Savoiu, in their work to which we have referred constantly, in all environments, and especially among the population, to make it understand the advantages of cashless payments, and even if this process would temporarily lead to the dissolution of significant work places within the State Treasury and the Bank, would have multiple benefits for the entire economy, whose beneficiaries, ultimately, would be also the individuals restructured and directed for other specialties.

Bibliography

1. Diaconescu, M., Savoiu V. (1998), Sistemul Național de Plăți al Băncii Naționale a României, Bucuresti, Editura R.A. Imprimeria B.N.R.
2. Belean, P. (2007), Bugetul Public și Trezoreria Publică în România, București, Editura Economică
3. Manolescu, Gh. (1997), Moneda și ipostazele ei, București, Editura Economică
4. Moșteanu, T.(1997), Buget și Trezorerie Publică, București, Editura Didactica și Pedagogica RA
5. Raude, V., Pagat, J.C. (1991), Cours sur les regles de la comptabilite publique, Paris, Ecole națională des services du Tresor
6. Belean, P., Anghelache, G., Risti, L., Ginguta, A. (2007), Buget public și Trezorerie publică în România, București, Editura Economica
7. Bolos, M.I. (2006), Bugetul și Contabilitatea Comunităților Locale - între starea actuala și posibilități de modernizare, București, Editura Economică