

# STANDARDIZATION OF INTERNAL MANAGERIAL CONTROL SYSTEMS AT THE LEVEL OF PUBLIC INSTITUTIONS IN ROMANIA

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## **Abstract:**

*The European Commission, through the standardization of the internal control systems at the level of the constituent institutions, pursues the achievement of its objectives by setting-up a rigorous financial management resulting into a proactive and effective decision-making process. In order to use the financial resources granted by the European Union, specific instructions were issued in close correlation with the standards on the internal managerial control. The present article aims to synthetically present both the specific Community regulatory bases, the internal control standards adopted at national level, the evolution of these systems, as well as the minimal logistics necessary for the implementation of these standards at the level of the public entities in Romania.*

*Key words: control, management, standardization, risks, performances*

**JEL Classification: H0**

## **1. Introduction**

The European Commission has decided to update the internal control systems specific to internal control systems set up within the 2000 Financial Reform. The set of specific standards supplements the procedures of Regulation no 966/2012 on the financial rules applicable to the general budget of the European Union and the Delegated Regulation no. 1268/2012.

These were derived from international best practices, as well as from the COSO standards (The Committee of Sponsoring Organizations of the Treadway Commission). The principles of sound financial management and internal control of budget execution are introduced as novelties. In fact, this is a corollary of the principles of economy, efficiency and effectiveness which were already defined in the old programming period 2007 - 2013, as it follows:

- Economics - the resources used by the institution must be made available in a timely manner, in adequate quality and quantity, and purchased at the best price;
- Efficiency - ensuring an optimal ratio between the resources used and the results achieved - performance;
- Effectiveness - achieving the objectives set by the legislator by achieving the expected results;
- Public management through establishing achievable, measurable, dated specific objectives and the obligation to monitor their fulfillment by performance indicators;
- Ex-ante and ex-post internal evaluation processes (not yet transposed into specific national legislation).

In addition, in the view of the European Commission, the internal control of the budget's execution is an ongoing process in order to achieve the following objectives: Good financial management;

- Reliability of information;
- Prevention, detection, correction, monitoring of frauds and irregularities;
- Ensure adequate risk management in terms of the regularity and legality of the activities carried out;
- Protection of assets and information.

The effectiveness and efficiency of internal control implies achieving of specific requirements at the level of the public entity, such as the separation of tasks, providing appropriate audit trails, ensuring the integrity of data within their own IT systems, real-time monitoring of results and implementing corrective measures and sanctions; and lastly but not in the least analyzing the cost-effectiveness of controls - the costs and benefits of corrective measures.

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## **2. The internal control system set up at the level of the payment authorization officers within the Romanian public administration**

The implementation of the internal / managerial control system at the level of the public entities in Romania represents one of the commitments undertaken by Romania under the chapter no28 - Financial control, negotiation with the European Union. This approach set its basis in the transposition of the specific Community acquis at national level through Government Ordinance no 119/1999 on internal control and preventive financial control, republished, and further amendments and the Order of the General Secretariat of the Government no 400/2015 for the approval of the Code of internal / managerial control of public entities, and further amendments.

Taking into account also the specific activities carried out, the payment authorization officers in Romania have to formalize and implement the internal / managerial control standards. Thus, by internal decision, the management / monitoring committees are set up for the purpose of drafting, coordinating, monitoring and approving the activities necessary for the implementation of the internal management control system in accordance with the standards contained in the GSG order above. This internal decision should also endorse the programs for the development of internal control systems within these structures. The goal is to formalize the integrated management at the level of public entities that ensure the achievement of the strategic objectives set by the legislator and the European regulations in an economical, efficient and effective way by developing an adequate internal functionality and in line with an internal regulatory framework.

The internal / managerial control system is an integral part of the payment authorization officers' management, involving all the levels of the management and all activities and it is implemented through standards defining a minimum set of management rules to be observed. The expected benefits of the internal management and control system complying with the requirements of the internal / managerial control standards are represented by the fulfillment of the permanent objectives related to any public entity:

- The objectives of efficiency and effectiveness of operation consist of performing qualitative activities and are implemented through the use of the organization's resources by complying with the principles of economy, efficiency and effectiveness, including their protection against inappropriate use;
- The objectives relating to the reliability of internal and external information, meaning to ensure an adequate quality of the information used within the institution or disseminated to third parties and to protect information and documents from harmful processes such as redundancy, distortion of results and concealment of fraud;
- The objectives relating to compliance with specific European and national regulations, practically ensuring that the carried out specific activities are in line with the European regulations, laws and internal policies.

The objectives are achieved through the use of an appropriate instrument that includes specific objectives, strategic measures, information system, organization, system procedures and operational procedures.

The documentation related to the declaration of conformity of the internal managerial control system of the public entities with the requirements of the standards included in the OGSG no. 400/2015, and further amendments, comprises the following elements:

- The internal managerial control code established at the entity level;
- Evaluation questionnaire;
- Internal decisions on system's functionality issued before the process of implementing internal control standards has started;
- Strategy for the development of the public entity;
- Formalized work procedures in place.

The internal control system represents all the forms of control exercised at the level of the public institution established by the management in accordance with its objectives in order to ensure the management of the public funds in an economical, efficient and effective manner. In order to implement the Managerial Internal Control System, it is necessary to implement 16 standards covering specific requirements grouped around 5 elements: control environment, performance and risk management, control activities, information and communication, evaluation and audit.

From the point of view of similarities, it can be related to the ISO 9001: 2015 standard and the requirements of the EGESIF 14-0010 / 2014 Guidelines. ISO 9001: 2015 is a set of generic standards that can be applied by any organization, large or small, in any industry, regardless of whether it is a business enterprise, public administration or government department. The internal control system is interrelated with the quality assurance process of products / services obtained within an organization. It aims to ensure the effectiveness of the following components: fulfilling the quality requirements, identifying and eliminating defects, preventive and corrective action systems, and own system's management analysis.

In order to carry out an operational program financed by the Structural Funds, in accordance with Community requirements, the Member State has the obligation to establish an appropriate management and control system consisting of the following authorities:

- (a) **A managing authority** for the implementation of the operational program;
- (b) **A certification authority** for the certification of expenditure and payment claims before sending them to the Commission;
- (c) **An audit authority**: in charge of verifying the effective functioning of the management and control system and the verification of expenditure submitted to the European Commission.

The Member State may take the decision for one or more **intermediate bodies** to carry out all or part of the tasks of the managing authority or the certifying authority.

The internal control system at the level of the three entities is designed to comply with the common methodology for the assessment of the Member State Management and Control System (EGESIF guidelines 14-0010 / 2014). It comprises 18 key requirements and 81 evaluation criteria, structured as follows:

- 8 - key requirements for the Managing Authority and Intermediate Bodies and 36 evaluation criteria
- 5 - key requirements for the Certification Authority and 18 evaluation criteria
- 5 - key requirements for the Audit Authority and 27 evaluation criteria.

The key requirements for all three entities defined in the Community Regulations are as follows:

- Key requirement no. 1 is the appropriate separation of functions and appropriate reporting and monitoring systems when the responsible authority entrusts the execution of tasks to another intermediate body;
- Key requirement no. 2: appropriate selection of operations;
- Key requirement no. 3: appropriate information for beneficiaries of European non-reimbursable funds;
- Key requirement no. 4: Appropriate management checks;
- Key requirement no. 5: the existence of an effective system to ensure that all expenditure and auditing documents are kept in such a way as to ensure an adequate audit trail;
- Key requirement no. 6: a reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit, including links to electronic data exchange systems with beneficiaries;
- Key requirement no. 7: effective implementation of proportionate anti-fraud measures;

- Key requirement no. 8: appropriate procedures for drawing up the management declaration and the annual summary of the final audit reports and controls;
- Key requirement no. 9: adequate separation of functions and adequate reporting and monitoring systems when the responsible authority entrusts the execution of tasks to another authority;
- Key requirement no. 10: appropriate procedures for drawing up and submitting payment claims;
- Key requirement no. 11: keeping adequate electronic records of declared expenditure and corresponding public contribution;
- Key requirement no. 12: adequate and complete records of amounts recoverable, recovered and withdrawn;
- Key requirement no. 13: appropriate procedures for developing and certifying the completeness, accuracy and veracity of accounts;
- Key requirement no. 14. Adequate separation of functions and systems to ensure that any other body carrying out audits in accordance with the program 's audit strategy has the necessary functional independence and takes account of internationally accepted audit standards;
- Key requirement no. 15: Appropriate system audits;
- Key requirement no. 16: Appropriate audits of operations.
- Key requirement no. 17: Appropriate audits of accounts
- Key requirement no. 18: Appropriate procedures for providing a reliable audit opinion and for drawing up the annual control report

### **3. Considerations regarding the implementation of the internal / managerial control system at the level of the public institutions**

The process of implementing the internal / managerial control system involves first scrutinizing the system's self-evaluation stage to identify system requirements that are fulfilled through the existing procedural framework and the requirements that regulatory procedures are needed to implement, the adoption of measures or other internal regulations. This approach should be followed by identifying the resources needed to meet the requirements of the standards within a certain optimal time horizon. Thus, the management committee / monitoring committee should carry out both structural and functional analyzes of the existing internal control system, focusing in particular on the five components of the system in which the requirements are written and interrelated internal control standards (control environment, risk performance and management, information and communication, control activities and auditing and evaluation).

Following its evaluation of its specific analyses' results, the management committee should coordinate the stage of adjustment / drafting of the internal procedural framework and the adoption of new measures deemed necessary through the decision of the manager of the public institution. The analyses carried out aimed at the objective separation of risk areas for which procedures should be issued, areas that do not require express formalization because they would lead to the cumbersome functioning of some components of the organizational system. Thus, the structural and functional basis is modeled to meet the requirements of internal / managerial control standards. In order to analyze and implement high standards of complexity requirements, the management committee / monitoring committee may decide to set up working groups made up of executives who have adequate professional experience and are led by decision-makers.

The work of the management committee / monitoring committee should first be focused on defining the Institutional Development Strategy of that public institution by conceptualizing its mission - in accordance with the relevant European and national regulations. At the same time, the organization's mission, vision, general strategic objectives and specific objectives are defined.

Another stage is the inventory and evaluation of existing internal / managerial control tools at the level of the respective public institution, followed by the process of developing and approving operational / system procedures at the level of the public entity. Once the General Secretariat of the Romanian Government by means of the Order no 400/2015, and further amendments (Orders 200 and 201 of 2016) issued a new set of improved internal and managerial control standards, established at the level of all public entities in Romania through the Ministry of Public Order no. 808/2015, there was a need to update and complement the internal regulatory framework of each public entity in order to fully meet the new internal/ managerial control requirements established at Community level. Thus, the management committee has a new assessment of the internal procedural framework and establishes the necessary measures to be implemented.

Amendments have been introduced concerning mainly the duties of the public entity manager, the tasks of the Management Committee, Standard no 7 - Performance monitoring, Standard no 8 - Risk Management and Standard no 9 - Procedures, mainly as it follows:

- Internal Control Standard No 1 - Ethics and Integrity includes novelties such as conflict of interest, prevention of corruption, and professional duty on reporting irregularities. The special attention given by the management of sensitive functions - the designation of posts considered sensitive and the mitigation controls established must be maintained in accordance with standard no. 2 - Tasks, functions, tasks; there were also clear requirements on the compliance of delegated acts to standard no 4 - Organizational Structure. There is the need to ensure correspondence between the overall strategic objectives of the entity and the provision of public services under conditions of efficiency, effectiveness and economy, at the level of standard no. 5 – Goals

- Each specific objective assumed by management should have at least one performance indicator that meets the criteria of commensurability, accessibility, specificity, relevance and timeliness as set out in Standard No.7 - Performance Monitoring. Standard no. 8 - Risk management provides for new requirements for inclusion in risk analysis and the expanded risk environment and the definition of identified and prioritized risk response strategies.

- In order to become effective internal control tools for system and operations - Standard no. 9 –the procedures must cover all major processes and significant activities, ensuring that, due to circumstances arisen from particular circumstances, if there are deviations from the established policies or procedures, the appropriate documents are approved at an appropriate level, prior to the performance of the activities and to allow for the correct separation of the functions related to the initiation, verification and approval of the activities carried out - the four eyes principle, and the access to resources to be fully formalized. It has also been necessary to specialize the procedural rules in operational procedures, the process or the formalized activity-taking place at the level of one or more system directions and procedures that comprise processes that take place at the level of all the departments / structures within the institution.

- Business continuity requirements at the institution level were updated by introducing the need to inventory potential situations generating discontinuities, derived situations resulting from the results of risks analysis and drafting responsive strategies that are accessible, applicable and known to responsible personnel of their implementation.

- The information and communication processes were merged into a single standard - Standard no. 12, highlighting the flexibility and speed of their own information system and the quality of the disseminated information. The information needs of the authority need to be re-evaluated periodically, and communication with the external environment is achieved through established and approved communication channels, respecting the limits of responsibility and authority delegations established by the management.

The process of implementation of the internal / managerial control system is finalized with the approval of the management committee / committee for monitoring the internal control code and the internal control system compliance questionnaire with the standards included in the Order of the General Secretariat of the Government no. 400/2015 and further amendments. The internal managerial control code is subject to the approval of the public entity's manager.

The effort to regulate the internal procedural framework should be directed at the development and approval of operational and system procedures, as well as other internal instructions deemed necessary. Thus, the following minimum documents must be drafted:

1. Institutional development strategy of the public entity. It must have a multiannual character;
2. System procedure for performance monitoring;
3. The risk management system procedure;
4. System of procedure for the management of deviations;
5. The system procedure regarding the delegation of tasks and responsibilities by the management of the public entity;
6. System procedure for archiving documents;
7. The system of business continuity planning system;
8. System procedure for verifying and evaluating the internal / managerial control system at the level of the public entity;
9. System procedure for the management of data storage media within the public entity;
10. System procedure for the use of laptops and workstations within the public entity;
11. Operational procedure for the elaboration of the activity program;
12. Operational procedure for the development of the multiannual program for improving the professional training of staff
13. Internal instruction on the establishment of sensitive functions within the public entity and the rotation process of the personnel in charge of these functions.
14. Internal decision regarding the appointment of risk officers;
15. Internal decision on the establishment of the Emergency Committee;
16. Internal decision on the appointment of data base re-appointment officers and related activities.

The process of assessing performance at the level of the public entity together with the risk management system procedure is the "pivotal" procedural framework around which the other operational and system procedures have been developed. Performance monitoring is done annually through the List of Activities, Goals and Indicators.

Order of the General Secretariat of the Government no 200/2016 amending SGG Order no. 400/2015 establishes clear attributions regarding the risk management process at the level of each public institution, as well as the necessary structural framework. The risk management process proposes an integrated approach. Risk identification is the sub-process of determining the risks that may affect the running of operational processes and project implementation at the institution level.

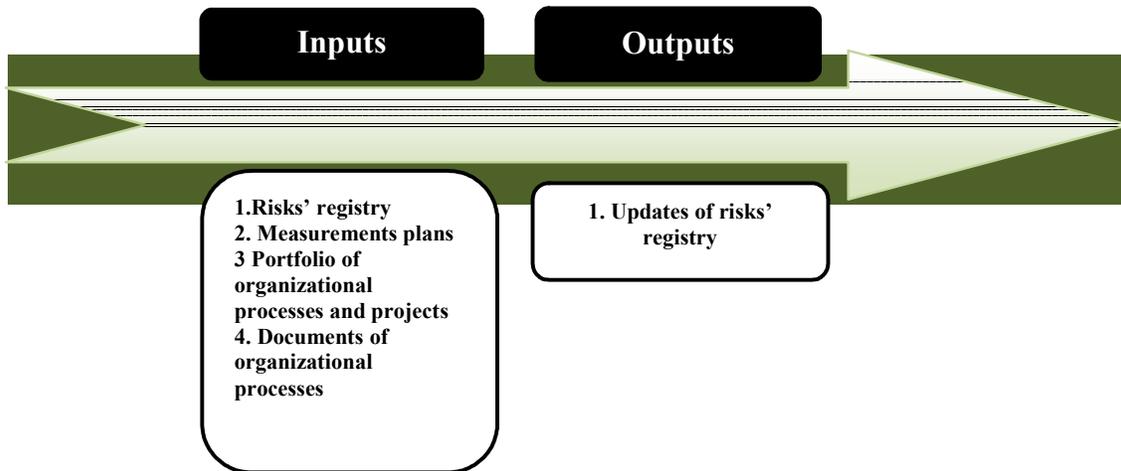


Figure 1. Identifying and prioritization of risks  
Source: Elaborated by the author

Performing risk analysis involves prioritizing identified risks and analyzing their effects on the general objectives of the public entity, with a view to adopting appropriate risk strategies and related action plans.

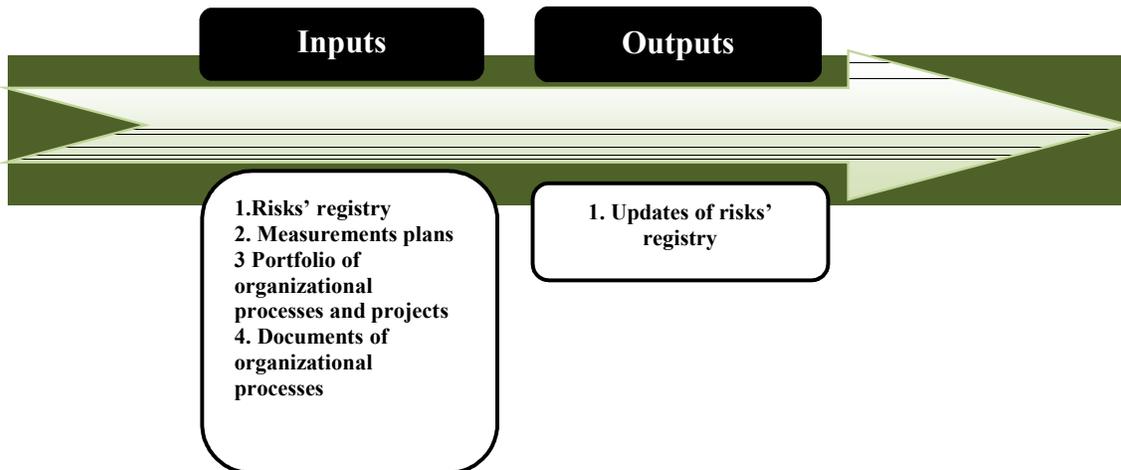


Figure. 2 – Implementation of mitigation measures  
Source: Elaborated by the author

Quality assurance is the process of auditing quality requirements and the results of quality control measurements to ensure compliance with specific European and national regulatory rules as well as internal procedural provisions. Performing quality assurance is an execution process that uses the information and conclusions obtained during quality control. At the level of the authorizing officers, the audit quality control takes two forms: quality control activities at each decision level - at the level of head of department, director, and internal audit quality control missions.

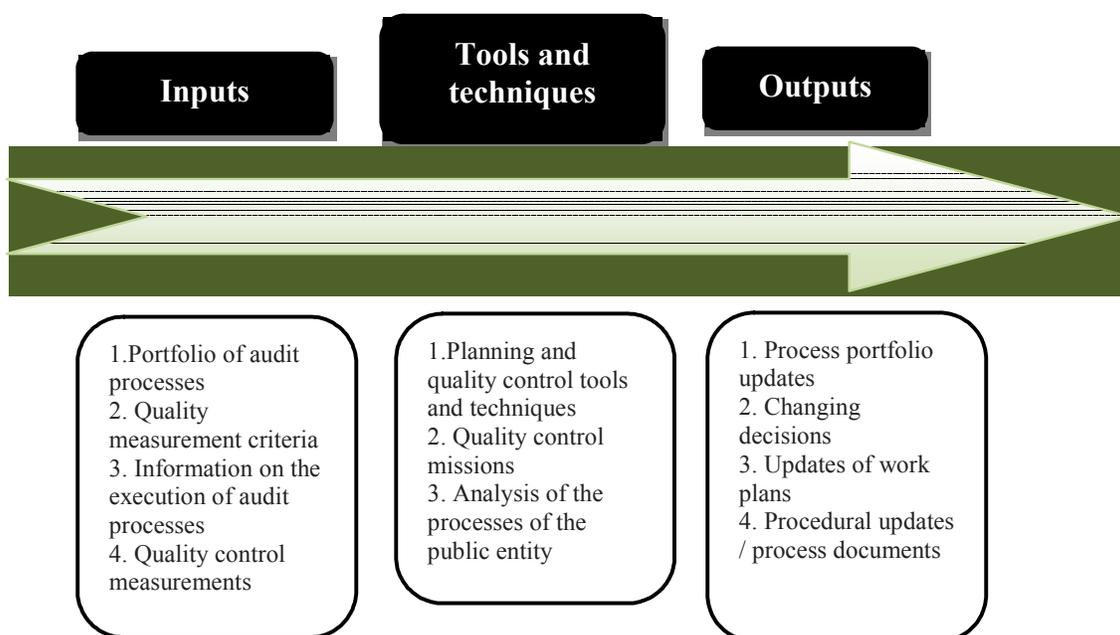


Fig. 3 – Ensuring quality at the level of a public entity  
Source: Elaborated by the author

Operational processes are continuous and support the institution over time. These do not end when the current objectives are met but follow new directions to support the strategic objectives of the public entity, as set out in the Institutional Development Strategy.

Where appropriate, according to the responsibilities laid down in European and national regulations, specific projects need to be implemented. A project is a temporary effort required to create a unique product, service or result. The end is reached when the project objectives have been met or when the project is interrupted because its objectives will not or cannot be achieved.

#### 4. Conclusions

Romania, as a Member State of the European Union, regulated at national level the internal managerial control standards promoted at European Commission level.

Currently, the legal framework requires that these standards should be applied to all activities carried out by a public entity, whether they are financial or not, and are aimed at identifying and minimizing all risks in order to ensure its proper functioning. At the same time, it stimulates the public entities to achieve the objectives established by the institutional development strategy, correlated with the tasks provided in the legal framework of operation. This is to ensure an adequate level of operational and financial performance at all decision levels.

The guidelines issued at the level of the European Commission for the 2014-2020 financial framework contribute to the development of a management and control system based on management through clearly defined objectives, and the implementation of sound financial management ensures the support of an efficient decision-making process.

Although the regulatory framework is ensured, the implementation of the internal managerial control standards at the level of the administrative apparatus in Romania has only a formal character. The management of public entities is not currently aware of the importance of implementing these standards, with insufficient decision-making tools.

The only exception is the management and control system developed for the implementation of European non-reimbursable funds, all entities being accredited at this time.

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