

INTERNAL PREVENTIVE FINANCIAL CONTROL IN THE PHASES OF BUDGETARY EXECUTION OF EXPENDITURE

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ABSTRACT

The preventive financial control or the prior control is exercised before the economic operations based on the provisions of the Order of the Minister of Finances OMF.522 / 2003, for the approval of the General Methodological Norms regarding the exercise of the preventive financial control, as well as of the OMF.912 / 2004, for the modification and completion of the General Methodological Norms related to the exercise of preventive financial control. In carrying out the preventive financial control activity, the public institutions, regardless of their subordination and the way of expenditures funding, have the obligation to observe the procedures regarding the four phases of the budgetary execution of expenditure, namely the expenditure commitment, liquidation, authorisation and payment. The purpose of the preventive financial control is to prevent and eliminate the breach of the legal provisions in force and the occurrence of damages.

KEY WORDS: *financial control, public institution, budgetary process, budgetary expenditure, budget commitment, authorising officer*

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1. INTRODUCTION

Control is an objective and subjective necessity (Munteanu, 1998), however it is not a purpose in itself, but a means of perfecting the executive activity, including the leadership process.

The essential directions pursued in the control activity are:

- ✚ Organising work in optimal conditions;
- ✚ Strengthening order and discipline in organising and conducting economic activities, the technological discipline;
- ✚ More efficient management of working, material and financial means;
- ✚ Discovering unrealistic, non-economic and illegal operations;
- ✚ Preventing the occurrence of deficiencies, irregularities and damages;
- ✚ Evaluating the effectiveness of the obtained results

Beside the other management attributes, control is indispensable to any human activity. It is a necessity on the level of all decision centres, having an active role in regulating decision making (Pereș et al, 2004).

As it represents a lever for monitoring the manner in which public funds are used and for following results, financial control is best placed to provide management with signals on the functioning of the public institutional system and the extent to which it will perform.

Through the existence of an objective, scientific and efficient financial control, the activity on the level of the patrimonial entities can be deployed, developed and modernised safely and with maximum efficiency.

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2. PREVENTIVE FINANCIAL CONTROL

The Preventive Financial Control or Prior Control is exercised before the economic operations and contributes to the maximal efficiency of the material means and money availability, to the strengthening of the order and the increase of the responsibility in the commitment and execution of expenditure, to the strict observance of the management legislation, to the prevention of any form of waste and eventual deficiencies, before it produces negative effects (Rada, 2006).

Pursuant to the provisions of OMF.522 / 2003 for the approval of the General Methodological Norms regarding the exercise of the preventive financial control, as well as of the OMF.912 / 2004, for amending and supplementing the General Methodological Norms regarding the exercise of the preventive financial control, the authorising officer issues:

- An internal decision designating the persons assigned to exercise the internal preventive financial control within the public institution;
- The General Framework of operations subjected to the preventive financial control, includes:
 - the document subjected to the preventive financial control;
 - the legal framework;
 - the supporting documents;
 - the objectives and content of the preventive financial control;
 - the term within which the preventive financial control visa is granted or refused - the person designated to exercise the preventive financial control visa;
 - the persons entitled to certify the operation drafts in terms of reality, legality and regularity;
- The application of the written procedures.

Public institutions, regardless of their subordination and financing mode, are required to comply with the procedures for completing the four phases of the budget execution of expenditure, namely, commitment, liquidation, authorisation and payment of expenses, as well as organising, record keeping and reporting of budgetary and legal commitments in accordance with Order no. 1792/2002 for the approval of the methodological norms regarding the commitment, liquidation, authorisation and payment of public institutions' expenses, as well as organising, record keeping and reporting of budgetary and legal commitments.

3. PHASES OF BUDGETARY EXECUTION OF EXPENDITURE

In public administration, "budgetary execution is based on the principle of separating the duties of the persons who have the capacity of authorising officers from the duties of the persons acting as accountants" and within any public entity "the person exercising the internal preventive financial control should not be involved, through the job duties, in carrying out the operation subjected to the internal preventive financial control"¹.

In the case of the principle of separation of attributions, we distinguish three

¹ Order no. 1792 of 24th December 2002, for the approval of the Methodological Norms regarding the commitment, liquidation, authorisation and payment of the expenses of the public institutions, as well as the organisation, recording and reporting of budgetary and legal commitments

fundamental functions, which may not be assigned all to the same person, meaning the assumption of significant risks related to assets security.

These three functions are:

- the authorisation (or decision) function which belongs to the authorising officer;
- the bookkeeping function, performed by the accountant;
- the financial function consisting in the payment or collection act, a function performed by a finance specialist or a cashier.

In the case of public institutions, the following clarifications may be forwarded:

- the authorising officer is only the manager of the budgetary credits, the operations specific to the credits management being the commitment, liquidation and authorisation;
- the public institution, as a rule, has no funds; the funds belong to the state and are constituted by the collection of taxes and duties;
- The funds management is carried out by the Ministry of Public Finances, through the Treasury;
- the funds manager is the paying accountant, the functions of the paying accountant are performed by the Treasury and the specific operation of the fund management is the payment.

It is therefore absolutely necessary to distinguish between the operation of "ruling the payment" (authorisation) and operation of "payment" (by the treasury).

Thus, the public entity has the obligation to observe the completion of the four phases of the budgetary execution of expenditure, namely:

- ✚ commitment
- ✚ liquidation
- ✚ authorisation
- ✚ payment

3.1. PROPOSAL OF EXPENDITURE COMMITMENT

The specialised department initiating a proposal for legal commitment also draws up the proposal of commitment of an expenditure item.

The Annex regarding the proposal for the commitment of an item of expenditure shall be supplemented by data related to the institution to which it belongs, the name of the department, the registration number, the date of issue, the purpose for which the budget credits are to be committed and the beneficiary, as well as the amount to be committed. It shall be signed and dated by the person authorised to do so from the initiating specialised department.

The proposal completed with these data is submitted together with the draft of legal commitment and budgetary commitment to the budget service to complete the chapter and subdivision of the budgetary classification to which the expenditure for the respective legal commitment project belongs, then it is transmitted to the accountancy service for the visa of the person empowered to exercise the preventive financial control.

One shall fill in there the data related to the approved budgetary credits, the budgetary credits committed, the available credit amount that may be committed and the available credits balance remained to be committed. If there are budget credits available, the preventive financial control visa is issued and dated and then transmitted together

with the draft of the legal commitment and the budgetary commitment to the authorising officer for signing and dating.

Once the Annex related to the proposal of committing an expenditure item has been signed by the Authorising Officer, it is forwarded to the Accounting Service for filing and preservation.

3.2. BUDGETARY COMMITMENT

It is an act that belongs to the first phase of the budget execution process, namely the expenditure commitment phase.

The budgetary commitment is drawn up by the specialised department initiating a legal commitment draft within this department. The budgetary commitment annex is recorded and dated and the beneficiary and the amount to be committed are specified.

Together with the draft of legal commitment and the Annex related to the proposal to commit an expenditure item, the Annex regarding the budgetary commitment shall be forwarded to the budget service for the budgetary registration of that expenditure item in the appropriate chapter, subchapter, title, item and paragraph, then forwarded to the accounting service for the granting of the preventive financial control visa by the person empowered in this respect. The granting of the preventive financial control visa involves putting in reserve appropriate budget credits for that specific expenditure item.

Then the budgetary commitment is signed by the authorising officer and is transmitted to the accounting department for recording in the evidence of committed expenditure (account 950 "Budgetary commitments").

3.3. PAYMENT AUTHORISATION

It shall be drawn up by the specialised department which initiated that expenditure item only after the empowered person confirmed the reality and the correctness of the amount due, as well as the fact that the supplies of goods were performed, the services provided and the works executed. These verifications shall be based on the afferent supporting documents.

The annex is filled in by the specialised department with registration number and date, the number of the afferent legal commitment, the payment method, the currency in which the payment will be made, the amount due to the beneficiary and any possible advance payments granted.

The payment authorisation along with the supporting documents bearing the visa of the empowered person regarding reality and compliance are transmitted for the granting of the preventive financial control visa to the person empowered in this respect, to verify that the authorisation was properly issued, the expenditure item correctly classified in the budgetary subdivision, whether it corresponds to the expenditure committed and there are available budgetary credits, and whether the supporting documents are approved.

If these conditions are met, the Annex shall be completed overleaf, namely: the budget subdivision to which the expenditure belongs, the available credit before payment, the payment amount, the post-payment available credit, as well as the name, address and IBAN code of the beneficiary in which the payment shall be made, or the cash specification if the payment is made through the cash register.

Once these mentioned have been entered, the financial control visa is issued and dated and then transmitted to the authorising officer to be signed and dated by the latter also, and thus to rule the payment.

Once the annex has been signed by the authorising officer, it is sent to the accounting service for the preparation of the payment documents. The "Authorising expenses" annex shall be kept at the accounting service attached to the supporting documents.

3.4. PAYMENT OF EXPENDITURE

It is the final stage of budgetary execution in which the public institution is released from its obligation towards third-party creditors.

The payment is made by the head of the financial-accounting department by completing the payment order for the state treasury (OPHT) only if the following conditions are met:

- the expenditure item to be paid has been committed, liquidated, and authorised;
- there are open / distributed budget credits or available credits in the availabilities accounts;
- all the supporting documents justifying the payment exist;
- the supporting documents are signed by the authorising officer;
- the commitment and authorisation documents bear the financial-preventive control visa;
- the amount due to the beneficiary is correct;

The payment order is issued in the name of each creditor, the payment will be made from the account corresponding to the nature of the expenditure which was previously filled in by the Budget Service on the "Budgetary Commitment" as well as on the "Proposal to commit and expenditure item", in the reserved area one shall enter the object of the payment, they will be dated and then signed by the authorising officer and the head of the financial-accounting department, over which the stamp is applied.

The payment orders shall be completed in duplicate, shall bear a unique order number and shall be entered in a separate register.

In order to make cash payments, the public institution may collect based on a cheque the cash for making payments for salaries, trips, prizes and other expenses which cannot be made by bank transfer.

The cheque shall be filled in with the required amount in figures and letters, specifying the currency in which the cheque is issued, the nature of the expenditure to be carried out from the cash collected, the bank which has to make the payment, the place of payment, the date and the signature.

Pursuant to Order 912/2004, the person authorised to carry out the preventive financial control will go through the checklist specific to the operation received for the visa, which is compulsory but not limitative.

These check-lists constitute a guideline in the exercise of preventive financial control by the designated person, who also has the obligation to make proposals to improve and complete the checklists.

If by studying the check-list at least one of the elements of the formal verification, such as : completion of the documents in accordance with their content, existence of the signatures of the authorised persons within the specialised departments, existence of the specific supporting documents for the operations submitted for the visa,

is not fulfilled, then the operation may not be authorised. In order to simplify and speed up the administrative circuit, in such situations, the refusal of the visa is not recorded, and one proceeds to the return of the documents to the department that initiated the operation, stating in writing the reasons for the refund.

After carrying out the formal control, the person designated to exercise the preventive financial control records the documents in the Register regarding the operations submitted on the preventive financial control visa and also performs the control of the operation in terms of legality, regularity and, as the case may be, of falling within the limits and destination of budgetary or commitment credits.

A copy of the checklist shall also be attached to the visa refusal, indicating the item on that list which was not fulfilled.

CHECK – LIST OF THE PAYMENT AUTHORISATION FOR THE PUBLIC PROCUREMENT OF PRODUCTS

No.	Verification objectives
1.	<i>Existence of supporting documents</i>
1.1.	- Global / Individual Budget Commitment
1.2.	- Contract / order (or other form of legal engagement)
1.3.	- Tax invoice (code 14.4.10), invoice (code 14.4.10 / a A)
1.4.	- Reception Report or Reception Note and detection of differences
2.	<i>Existence of visas for certificates, approvals, other legal signatures, as appropriate, for:</i>
2.1.	- The justifying acts in point 1
2.2.	- The payment authorisation
3.	<i>The correct setting of the amount proposed for payment</i>
4.	<i>Classification of the proposed payment amount into:</i>
4.1.	- Level of budgetary commitment
4.2.	- Level of budgetary commitment
4.3.	- Amount of liquidated expenses
4.4.	- Budgetary credits opened / distributed or available in availabilities accounts, as appropriate
5.	<i>Correspondence of payment order data with those in the supporting documents for:</i>
5.1.	- Nature of expenditure item
5.2.	- Number and date of invoice issuance
5.3.	- Beneficiary of the amount
5.4.	- Beneficiary Bank
6.	<i>Correspondence between the content of supporting documents as regards:</i>
6.1.	- Quantity of products received
6.2.	- Quality of products received
6.3.	- Unit price of products received
6.4.	- Delivery times
6.5.	- Payment methods

**CHECK-LIST OF THE PAYMENT AUTHORISATION FOR SALARIES,
OTHER SALARY RIGHTS GRANTED TO THE PERSONNEL**

No.	Verification objectives
1.	<i>Existence of supporting documents</i>
1.1.	- Monthly salary list centraliser
1.2.	- The situation related to the monthly breakdown of staff costs
1.3.	- The situation regarding the monitoring of personnel costs
1.4.	- The payroll
1.5.	- The approved budget
2.	<i>Existence of visas, certificates, approvals, other legal signatures, as appropriate, for:</i>
2.1.	- The justifying acts in point 1
2.2.	- The Payment Authorisation
3.	<i>Classification of the proposed payment amount into:</i>
3.1.	- The level of the budgetary commitment
3.2.	- The amount of liquidated expenses
3.3.	- The budgetary credits opened / distributed or available in availabilities accounts, as appropriate
4.	<i>Classification of the number of employees from the salaries list into:</i>
4.1.	- The maximum number of staff set by the budget
4.2.	- The number resulting from the payroll
5.	<i>Correspondence of payment order data with those in the supporting documents:</i>
5.1.	- The type of payment
5.2.	- The beneficiary of the amount
5.3.	- The bank of the amount beneficiary

The first three phases, namely commitment, liquidation and the authorisation, are in the competence of the authorising officer and are made on the basis of the visas granted by the specialised departments of the public institution, and the fourth, namely payment, is performed by the execution bodies. The actual payment is the operation of paying the amount due to the beneficiary and is assured by the head of the financial-accounting compartment within the limits of the available funds.

4. CONCLUSIONS

On the level of public institutions or economic entities in the public domain in general, control can be seen as a leverage of the state, as an external intervener, but also as an instrument available to its own leadership to achieve the objectives and reach the goals of the programmed and ordered activity.

Improving the organisation and conduct of the financial control activity and aligning this activity with the European and international standards in the field are the primary objectives of the persons involved in the control activity, regardless of its form.

The preventive financial control is exercised in relation with the documents in which the patrimonial transactions are recorded before they become legal acts by their

approval by the authorising officer and aims to prevent and eliminate the infringement of the legal provisions in force and the occurrence of damages;

The preventive financial control shall be systematically checked for operations in terms of:

- legality and regularity;
- observance of the limits of budgetary credits or approved commitment credits;

The own preventive financial control is integrated into the sphere of managerial responsibility, and its execution observes the completion of the four phases through which an expenditure item is performed: the budgetary commitment; liquidation; authorisation; payment.

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