

Challenges of the financial crisis – a learning lesson for rethinking financial control and verification instruments and mechanisms in Romania

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Abstract

The lack of an information system allowing process control within organizations can lead to low efficiency levels of operations, poor management decisions and inadequate budgeting. In the last two decades we have been witnesses of a steady reduction of this fact, since the role of public audit and mechanisms for evaluating or controlling has significantly changed at in public entities, as a reaction to the economic and financial crisis. The accumulated experience has proven that the implementation of mechanisms and instruments to deliver real time results and contain the negative effects of risks and/or uncertain events is vital for organizations to reach their objectives.

Taking into account the fact that, the control mechanisms and instruments are not just a statement of government finance, but rather the link between the mobilization of funds and attainment of public policies goals and objectives, the main goal of this paper is to undertake an empirical analysis the importance of evaluation mechanism in public entities in Romania.

Specific methodological instruments as well as the existing theoretical support which are at the disposal of stakeholders involved in public administration development processes, contribute to the fulfilment of public administration objectives, but also of objectives stated in the Europa 2020 Strategy. Especially the objectives referring to future intelligent and sustainable economic growth processes and mechanisms, policy consolidation mainly concerning research, development and innovation and other priority policies and instruments.

Keywords: financial control instruments and mechanisms, public administration, Europa 2020 Strategy, sustainable growth.

PRELIMINARIES

After 1990 one of the priorities of the Romanian Government was the creation of a modern and efficient public administration system [1], by modernization and adaptation to economic realities, increasing the coherence of the administrative act, management perfection and strengthening the control over public fund spending. Thus current reforms of the Romanian Public Administration, as stated in the Government Program for 2013-2016 [2] are a continuation of this 25 year long process. Public administration reforms will concentrate on autonomy growth for local collectivities by starting real decentralization processes, and introduction of a evaluation system to

assess the functioning of all organisms of the public administration, at local and central level as well.

Also, the Government strategy for 2013-2016 seeks a better integration of the Europa 2020 strategy objectives. European funds management and accessing and spending mechanisms are being correlated with the European Union's financing priorities and the thematic objectives of the Union's policy for European cohesion.

THE CONTEXT OF MODERN PUBLIC INSTITUTIONS

Public administration is according to its purpose a system acting responsibly from a social point of view. Public administrations social responsibility acts on five different levels [3]:

- Legal level: Public administration must propose legal projects to create a proper environment for economic, social and most of all human development;
- Economic and social level: one of the duties of public administration is to ensure the necessary framework for improving the quality of life;
- Ecologic level: it is essential that public administration actively and decisively implicates in environment protection, allocation and use of natural resources and reduction of gashouse emissions;
- Technological level: Public administration must promote by any rational means the exploitation advantages offered by technological progress;
- Political level: public administration must take all effort to uphold human rights and liberties, separation of powers and performance optimization of public policies [4].

In order to be able to act on all these levels, organizations of the public sector must make use of all tools and instruments of modern management, thus adapting to the modern environment and meeting today's challenges. However, it is also a matter of society's trust in public administration's capacity to reach their objectives, as will be shown later.

Modern management starts from an open organizational culture based on communication and transparency. Modern organizations rely on new values, which are substantially different from the ones of organizations from the past. However, these new values are more of a completion and development of already well established values,

such as the quality of offered services. Among these we mention regarding stakeholders as valuable partners of the organization, interest for protecting the environment, fair and ethical behavior in the economic environment or the organization, and the implication in the employee's professional and personal development [5]. Modern organizations acknowledge their employees the main creative factor, just as it acknowledges the indissolubility of the employee's creative potential from the potential to commit errors. That is why organizations go to extensive lengths to prevent the errors of their employees, or, should errors still occur, that the organization learns as much as possible from them and draw the best conclusions from them. Thus organizational values, which are aimed at the well being of the employee, affectively link him to the organization because they feel supported and acknowledged by the organization [5].

THE NEED FOR CONTROL IN PUBLIC ADMINISTRATION

Fund spending in the public administration is also a matter of controlling processes and activities in order to attain best values of performance and economy. Since society (including here persons and organizations) is the main source for funding public administration organisms, it is imperative to have efficient control mechanisms and/or systems, to oversee and optimize allocation and spending processes. On the other hand, global studies show, that less than half of the population all over the world relies on public institutions, so the matter of trust is essential.

Trust in public administration is a question of many facets:

- Trust in the capacity to fulfill its scope – meaning, the capacity of public institutions to deliver the public service it is supposed to deliver;
- Trust in the financial capacity – meaning trust that taxes are used for the well being of the community;
- Trust in the human capacity of the public system – meaning the capacity of the public administration to understand the problems and needs of the society, and to find the best solutions for these.

Meeting these levels of trust is a question of good and modern management but also of a complex control and verification, in order to establish the right levels of performance are achieved. This is why special organisms like the Court of Accounts or the Control Corps of the District Councils have been formed, in order to exert control

over the state's public institutions. The need for control and verification is justified by these levels of trust. It is because this trust at all levels that society is entitled to verify and demand justification for the way that funds are spent and public service is delivered.

The activity of these organisms is one of discovery and sanction of infringements in public institutions, regardless of their cause or premeditation. Also, the verifications and actions of these organisms are mostly limited to the financial aspects of the activity.

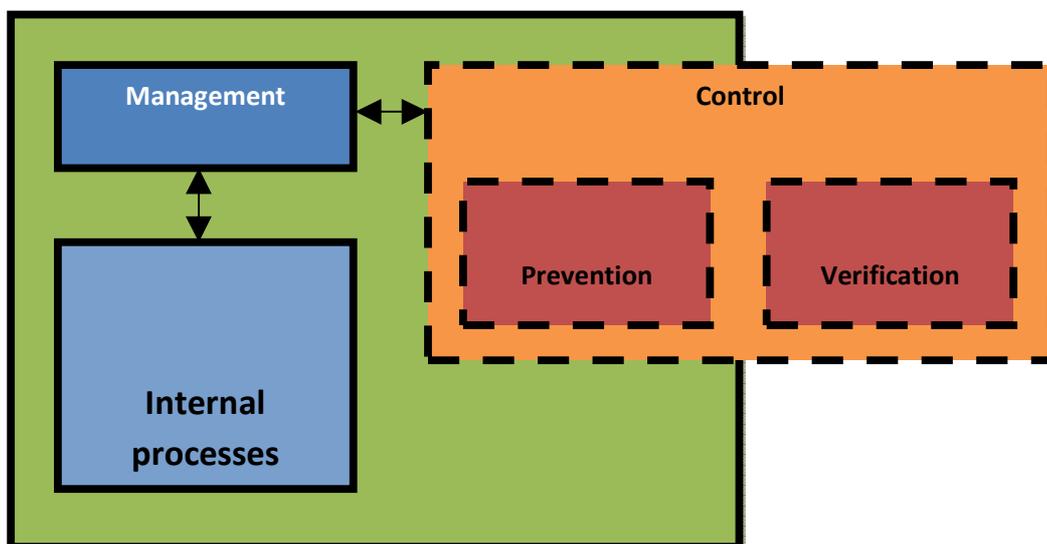
THE AUDIT CULTURE IN THE PUBLIC SECTOR

Modern management in public institutions addresses the issue of prevention versus verification by the internal audit activity; modern management tendencies prefer to prevent rather than punish. Also, through internal public audit, the issue of measuring performance regarding all three levels of trust described above is addressed in a systematic manner. In this regard, the main difference between prevention and verification is the following [6]:

- Prevention aims at avoiding errors, improving activities in organizations;
- Verification aims at finding errors and punishing those that cause them.

In the sense of the present paper, control should be understood in its larger meaning, including both internal audit activities (prevention) and external audit activities (verification), designating an activity which lies at the basis of management decisions, adding value to both the organization and internal processes [7]. Figures 1 and 2 show how control is organized and how it works.

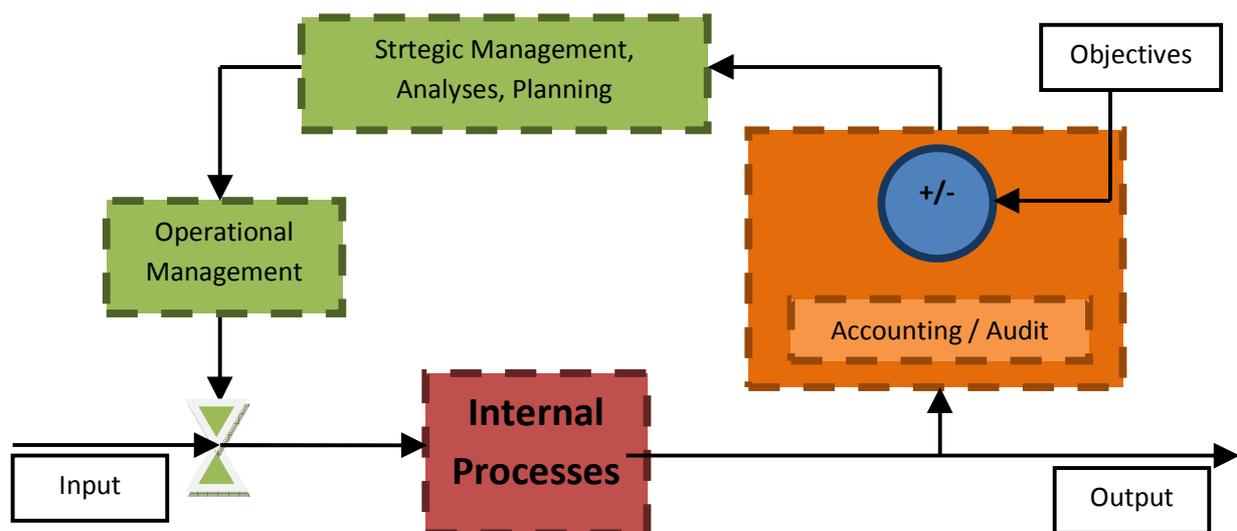
Figure 1. Structure of control mechanisms



Source: Based on Dumitrescu Peculea, A. (2015) [9]

Control mechanisms are according to figure 1 information systems which feed management with relevant data for both strategic and operational decisions regarding the organization and its internal processes. Figure 2 shows the information flow of the control mechanism within the organization.

Figure 2. Organizational process control



Source: Based on Dumitrescu Peculea, A. (2015) [9] .

As it is visible, the control system information flow is actually a feed-back loop, feeding information to both strategic and operational management, thus supporting and substantiating its decisions.

CONCLUSIONS

Since the trust of the Romanian society in the public system is low, increasing this trust should be a matter of general national interest, although it is very hard to define [8]. Control mechanisms and instruments are in this regard a vital tool for reaching this goal and fulfilling the national interest. Another facet of raising society's levels of trust is corroborating the efforts of the control system with efforts of public marketing, bringing the changes and the attention of the public.

Also, a consolidation of the control of the role and position of the control mechanism [9] is necessary. Although changes in the legal framework governing

internal public audit and control mechanisms are taking place, a change in the general perception of the role of these activities must also take place.

Future research possibilities of this paper are oriented towards the evolution of control mechanisms, especially regarding internal public audit facing new and changing challenges for public administration.

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