

# ISSUES CONCERNING THE MAIN TOOLS OF FINANCIAL PLANNING AND CONTROL IN THE PUBLIC SYSTEM

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**ABSTRACT:** *In our country the profound transformations that have taken place in order to adapt to the new economic conditions, political, legal and social aspects have made their mark and the public sector. In this context, and in light of the new rules applicable legal from January 2014 the public accounting system were determined to realize an analysis of tools for financial planning and control of vital importance for the public sector, among which are: systematization budgetary, revenue and expenditure budget as well as the preventive financial control whose influence depends on the financial activity of public entities.*

**KEY WORDS:** *planning tools, budgetary classification, revenue and expenditure budget; preventive financial control.*

## 1. INTRODUCTION

The strategies and policies developed by management structures hold an essential role in the design and substantiation of the activities of public institutions. The essential materialization of the forecast, the strategies and policies contribute to the development of every public institution, their content being often decisive for the efficacy of the interface with the systems they belong to, extent to which they maintain and amplify their role within that respective community. Strategic planning has to be accompanied by the promotion, in each public institution, of an integrated strategic management at all levels, able to identify and exploit emerging opportunities for the community. In this respect, a proper budgetary execution must target an efficient revenue collection, correlated with a careful monitoring of expenses, especially since they involve public budgetary resources. The need for budgetary revenue growth in the current economic context and for expenditure level reduction incurred in the process of implementation and provision of public services by the authorities of public administration has prompted public managers to turn to the main tools of financial planning and control in order to enable accurate and timely decisions for the public institutions they manage.

## 2. BUDGETARY CLASSIFICATION – STRUCTURING AND MONITORING TOOL OF PUBLIC REVENUE AND EXPENDITURE

Satisfying the general needs of the society requires the mobilization of some important monetary funds available for the State and for other public authorities. The document of law that substantiates and predicts both annual revenue that is to be mobilized and expenses that are to be made on different destinations represents in fact *the budget*. Annually, taxes, fees and taxation rates are approved, along

with the other revenues that the State will collect/charge. At the same time, budgetary credits per destinations are approved.

In order to better know the diversity of taxes, fees and destinations budget expenditure, it is necessary to group them according to uniform criteria. The classification of the budget is the main tool for systematization, tracking and control of income and expenditure performance, being at the same time the consequence of the operating of budgetary specialization principle [6]. Budgetary classification regroups income by nature and origin, and expenses by nature and destination, which makes possible the following aspects [7]:

✓ *The knowledge of the exact State revenue and expenditure;*

✓ *The comparison in time of the budget development will allow a dynamic analysis of the State's revenue and expenditure;*

✓ *The control over the whole process of budget implementation and the ensuring of financial discipline;*

✓ *Organizing public accounting facilitates the recording and processing of data.*

Budget classification is compulsory both in the process of budget implementation and in the process of execution, too. Finance Act No. 500/2002, 29 article point (1) provides that “*Revenue and expenses regroup in the budget based on the budgetary classification*”. This has been drawn up by the Ministry of Finance, considering the following grouping criteria:

▪ *The administrative and governmental criterion*, according to which State's revenue and expenses are grouped by the institutions that receive or operate them;

▪ *The economic criterion*, according to which the categories of income and expenditure are distinctively presented both as current operations and as operations of capital;

▪ **The functional criterion**, according to which expenses are grouped by the interests pursued by the State and according to the State's tasks and objectives.

Budget classification divides income into current income and capital income.

**Current revenue** is the fiscal income (direct and indirect taxes) and the non-fiscal income (payments from net profit of the autonomous bodies, public institutions payments, fees for patents and inventions, consular fees, fines, etc).

**The capital income** is: the liquidation of foreign shares, sums from selling assets belonging to the State, etc.

Within the budget classification, expenses are classified by functional and economic criteria.

**The functional criterion** involves separating expenses on domains of State's activities: general public services; defence; public order and national security; social and cultural costs (education, health, culture, religion, social work, allowances, pensions, benefits and allowances); economic activities (this includes expenditure on national interest companies in the fields of industry, agriculture and forestry, transport and telecommunications) etc. [2].

**The economic classification** separates expenditure according to their nature, just as the income, into current expenses that are constantly carried out in every public institution (personnel costs, material costs, services, etc) and into capital expenditure (institutions' investments, those of autonomous bodies and of the companies with fully capital or majority state one).

Ensuring a permanent correlation between the content of budget classification, the provisions of the law which regulate and determine the design and implementation of the budget, as well as the real possibilities of an efficient expenditure implementation represents the conditions that must be in the attention of chief accountants and of the heads of financial and accounting departments at all levels. [6].

### 3. THE PROCEDURE OF DRAWING UP THE BUDGET OF REVENUE AND EXPENDITURE

The economic content and the forms in which public budgets can be found in the economy and society represent an essential prerequisite for the understanding of their functions and role, including the incidence exercised by the formation and use of budgetary funds on the participants to economic relations.

The evolution of human society has objectively determined the emergence of new economic and social relations to facilitate the permanent increasing human needs. These relations, currently known as finances, have been outlined on „the background of value expression through cash of the economic processes and relations, under the impact of goods exchange and social organization development of human communities.”

With the extension of tasks and activities of public authorities, both at central level and at territorial profile, the increase of income sources has become a necessity in order to deal with regular budget expenditure rising. In addition to the State budget, there are a series of specific public budgets which, due to the roles and

functions they fulfill, have earned a solid, well-structured place in the social-economic architecture of the present.

The budget is the financial instrument through which political options can be quantified and achieved, and the concrete modalities of their implementation are materialized through the distribution of budgetary revenue and expenditure. The budget construction depends on the political groups governing, various versions of the budget being promoted (adverse, balanced, surplus, with higher or lower weights of the GDP), based on concrete realities and on the doctrine of the ruling parties. Budgetary provisions are landmarks of future developments in the economic and social plan. Prepared by the Government and approved by the Parliament, the budget represents the most important act of public life, since it is the financial expression of the action program of the State for a period of one year. However, the most important approach of the budget, in terms of its impact on economic and social life, is the economic approach. The economic approach of the budget reveals the correlations that manifest at the level of national economy, primarily with regards to the level and evolution of the gross domestic product (GDP).

Public budgets represent a fundamental category of finances, a leading financial concept, to whose crystallization more thinking currents have contributed, with their own approaches, among which the legal and economic approaches strongly distinguish. To these, a political approach and a technical one can be added, too. It should also be stated that, generally, in specialized literature, State budget often overlaps, in content, public budgets, and many authors, when referring to the State budget, take into account the public budgets on the whole. Although the role, the importance and the size of the State budget cannot be denied, we consider that when referring to the overall financial activity of the State in its aspects as a public authority, we'd better use the term of public budgets.

The issue of public budgets is, therefore, very complex, being under the attention of many specialists from various areas such as: Economics, Legal Science, Political Science, Sociology, Mathematics. However, the economic and financial significance of the budget appears to the fore, the economic relations in cash, the formation, the distribution and use of financial funds by the public authorities in order to meet the general (mass) demands of the society.

The technical approach of the budget mainly aims at the methods of compilation, execution and control of the budget, including the substantiation and achievement techniques of budgetary revenue and expenditure.

The financial planning tool used by public institutions is **the budget of revenue and expenditure**. This has, as principle of substantiation, the automatic method. Based on this method, the implementation of the budget in the previous year is analyzed by comparing what was budgeted with the actual values achieved. [3].

The substantiation of the revenue that a public institution can achieve is performed according to their

particularities and to the destinations of the revenue, and also according to the achievements in the previous years. The substantiation of costs is made in strict accordance with the level of income. [8].

Below are presented a few algorithms of public institutions expenditure, starting from the structure of budgetary classification: [11].

Article /paragraph of budgetary classification	Substantiation algorithm		
10.01.05 Bonuses for working conditions	<p>Legal basis: G.D. 281/1993, other normative acts specific to each public institution, internal rules for granting. Types of bonuses:</p> <ul style="list-style-type: none"> <li>▪ Increase to dangerous conditions;</li> <li>▪ Increase to harmful conditions;</li> <li>▪ Bonus for working in remote areas;</li> <li>▪ Bonus for working at night.</li> </ul> <p>It is calculated as a percentage of base salary for each category of increases and it is awarded for the actual time worked in such conditions.</p>	20.03	<p>been drawn up. For electricity consumption, they will analyze the average electricity consumption in kW/year and the price of a kW.</p> <p>From this article, the food costs are borne for:</p> <ul style="list-style-type: none"> <li>▪ Assisted persons in hospitals, homes, special care institutions;</li> <li>▪ Defence sector and public order employees;</li> <li>▪ Animals from households and farms of public institutions, and also animals of sports associations, clubs.</li> </ul>
10.01.13 Delegation allowances	<p>Legal basis: G.D. 1.860/2006. The delegation allowance is paid to workers on mission in localities situated at more than 5 km away from the premises of the institution. The amount is paid periodically by the Ministry of Finance. The transfer allowance shall be granted provided the duration of the delegation is of at least 12 hours.</p>	20.06.01 Internal displacements, detachments, internal transfers	<p>Legal basis: G.D. 1.860/2006. This includes accommodation costs, transport costs within the locality and outside the locality.</p> <p>If movement is achieved by private car, the car owner will receive the equivalent of 7.5 liters of fuel per 100 km on the shortest distance .</p> <p>Regarding accommodation, the settlement expenses shall be carried out as follows:</p> <ul style="list-style-type: none"> <li>▪ For accommodation in the tourism accommodation, within the tariffs of 2 star tourism structures, for a single bed room or when the tourism unit has no such single room, the option is for a double room;</li> <li>▪ On special situations coming from affidavit, when there is no possibility to accommodate in a 2 star tourism structure or in one with less comfortable conditions, the person on the delegation is accommodated in a more comfortable tourism unit, the clearing of accommodation costs will be made in the limits of the 3 star tourism unit for a single or a double (if the unit has no single rooms). When breakfast is included in the costs of accommodation, then it will be discounted, too.</li> <li>▪ The value of movement expenses can be achieved by taking into account the average number of trips per month, the average length of a long voyage, the estimated costs of accommodation expenses, the average number of persons per trip.</li> </ul>
10.03.02 Unemployment insurance contributions	<p>Legal basis: Law 76/2002 regarding the unemployment insurance system and employment stimulation, as later on amended and supplemented. It is calculated as a percentage of the gross salary, with the exceptions provided by law.</p>		
20.01	<p>From this article, costs of goods and services shall be borne:</p> <ul style="list-style-type: none"> <li>▪ Office supplies – established on the basis of need and consumption reports previously recorded in conjunction with the general price index;</li> <li>▪ Cleaning materials - determined on the basis of need and consumption reports previously recorded in conjunction with the general price index;</li> <li>▪ Heating, lighting and motive power; these expenses are budgeted according to their nature. If the institution has heating station, then they will take into consideration the specific consumption of the heating station, the number of operating hours during the year, the value of the fuel at the time the budget has</li> </ul>		

20.11 Books, publications and documentaries	From this article, costs related to the purchase of books for schools and university libraries will be borne, costs related to the realization of subscriptions to the Official Gazette, to newspapers and other publications in the country and abroad, costs related to the purchase of catalogues, norms and other specialty publications.
71.01 Fixed assets	From this article, expenses related to the investments of public institutions will be borne, investments such as: the purchase of fixed assets in the country and abroad, the construction works of residences or other buildings belonging to public institutions, the purchase of computer programs and licensed software. These acquisitions of public institutions will be carried out by open tendering according to the public acquisitions' procedures.

A model of revenue and expenditure budget shall include the costs projected for that respective year, their particularization per quarters being therefore highlighted.

#### 4. PREVENTIVE FINANCIAL CONTROL ISSUES

The content of preventive financial control consists mainly of double budgetary authorization, according to which any expenditure, in order to be made, must meet the following conditions:

- To have a legal basis;
- To have a credit approved by the budget:
  - ✓ Commitment credit, when it comes to multi-annual actions structured in programs;;
  - ✓ Budgetary credit, for the current multi-annual actions;
- To observe the destination of the credit to be charged, according to the budget classification and allocation of resources by programs.

The preventive financial control requires a systematic check of operational projects which are covered by this control in terms of:

- Legality and regularity;
- Classification within budgetary commitments established by law.

Public institutions are required to organize the preventive financial control and to provide records of the commitments in the accounting department. The leaders of these institutions must establish the operational projects under preventive financial control, the documents in proof and their circuit.

The records of budgetary commitments are organized, held, updated and reported in accordance with the methodological norms approved by the Minister of Public Finance.

The persons appointed to carry out the preventive financial control must have the necessary professional skills for this activity.

Only the operational projects which comply with legal, regular and employment within budget appropriations will be subject to the approval of credit officer, or the operational projects within the approved commitment credits, and which have visas of personal preventive financial control.

The visa of personal preventive financial control is exercised by the signature of the persons in law, and by applying their own seal on this.

In order to grant the visa of personal preventive financial control, the operational projects are accompanied by appropriate supporting documents, certified on accuracy and legality by the signatures of the leaders of specialized departments that initiate the respective operation and who are responsible for the accuracy, regularity and legality of the documents they have previously certified.

The control represents an objective and subjective necessity, but not as an end in itself, but more as a means of perfection of any activity and of the management process, as well. Knowing the contents of the control means to pay attention to all the steps of the decision-making pyramid, from the terminology used to the determination of the role of the information provided by this one. [12].

The process of hiring, liquidation, ordering and payment of budget expenses is permanently verified by **the preventive financial control** organized at public institution level.

The preventive financial control is regulated by the Order No. 119/1999 regarding the internal and preventive financial control, which has been republished, and by O.M.F.P. No. 522/2003 for the approval of the General Methodological Norms on the implementation of preventive financial control with later amendments and additions.

The preventive financial control is found in three forms: the control of legality, the control of regularity and the budgetary control, depending on the item to be checked, as follows: [4].

✓ Observing all legal provisions applicable to the respective operations, in force on the date they are performed (**the control of legality**);

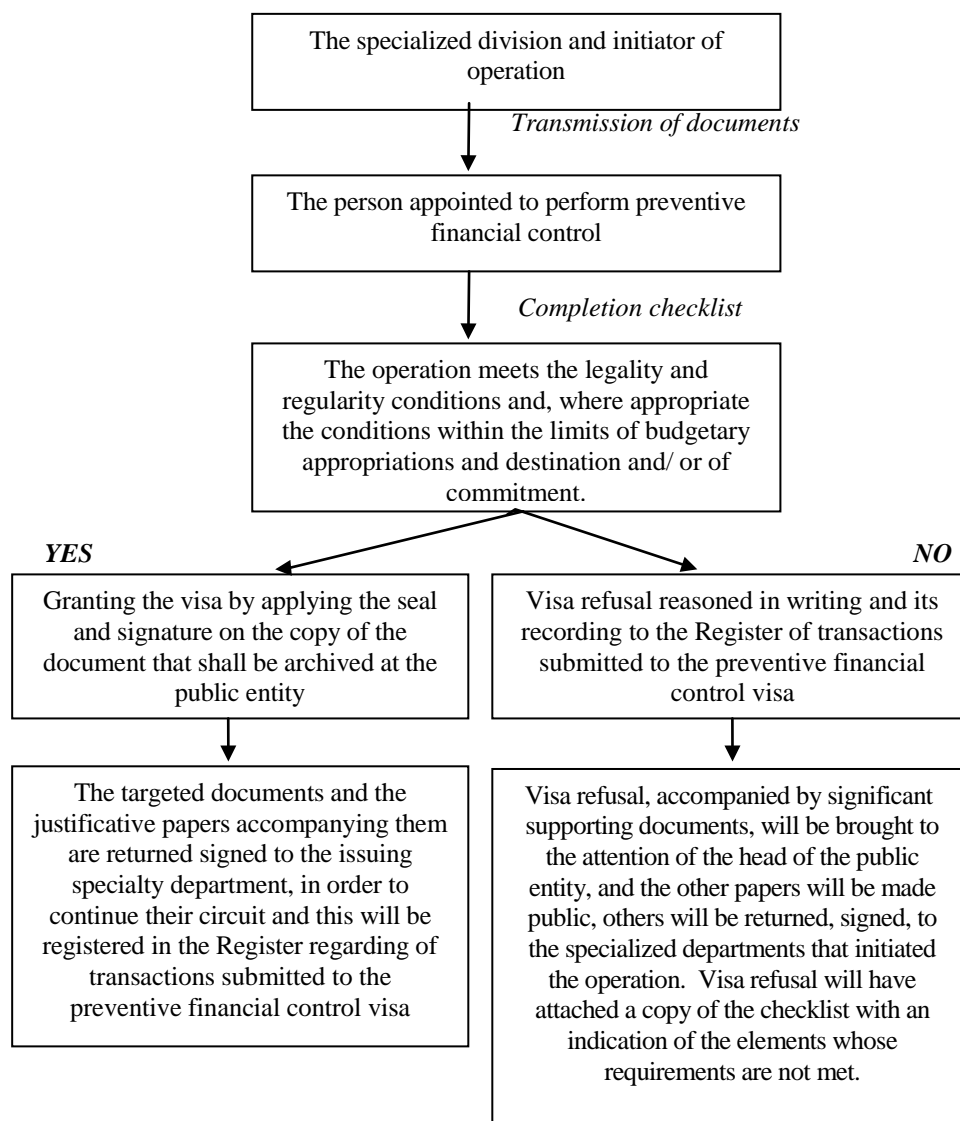
✓ The fulfilment, in all aspects, of the principles and of methodological and procedural rules that are applicable to the categories of operations which include the operations under scrutiny (**the control of regularity**);

✓ The framing within the limits and destination of budgetary credits and /or of engagement ones (**budgetary control**).

The preventive financial control is exercised on the basis of papers and/or supporting documents certified in terms of reality, regularity and legality, by the heads of the issuing specialty departments. The preventive financial control can be **specific or mandatory**. [5].

The preventive financial control procedure is shown schematically in figure 1.1.

### *Preventive Financial Control Procedure*



## 5. CONCLUSIONS

This work has had as main goal an analysis summary of key financial planning and control tools that are used in the public system in our country.

Budgets prepared by public institutions must be effective tools for implementing strategic plans and this calls for an Integrated Financial Management System made up of a set of interrelated subsystems which plan, process and report on existing resources, quantifying them in financial terms, and its basic subsystems are: accounting, budgeting, cash management, credit management and internal financial control.

Through the use of modern and classic methods in preparing revenue and expenditure budgets we must keep in mind that modern methods offer the philosophy on the design of the revenue and expenditure budget of an institution, for the purpose of determining some of the goals to be achieved, possibly over a number of years and considering the establishment of some efficiency indicators, while the classic methods are the ones that provide the means,

the necessary tools of substantiating expenditures and revenues of the program budgets.

As we all know, the quality of the control activity and its results largely depend on the procedures, techniques and tools used in order to achieve the objective of preventive financial control, that of systematic verification of the operation projects under control in terms of legality, regularity and classification within the budget appropriations legally established.

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