

# Considerations regarding possible directions for improving the method of carrying out financial control in public institutions in Romania

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## Abstract

This article aims to analyze the current state and the fundamental role of financial control within public entities in Romania. Through a methodology based on comparative analysis, the study focuses on financial control legislation and practices, highlighting significant developments and changes in recent years. The analysis is enriched by assessing the impact of these changes on the efficiency and transparency of the management of public funds.

In particular, the article identifies progress made within the financial control system, highlighting legislative and administrative improvements as well as persistent challenges. Special attention is paid to the impact of the reforms on the transparency of public spending and the accountability of government institutions.

The results of the analysis emphasize a gradual tendency to improve financial control practices, but also highlight the continuous need for reform and adaptation to European and international standards. Through this analysis, the article contributes to the existing literature on this topic, providing an updated perspective on the state of financial control in Romania and emphasizing its importance for efficient and responsible governance.

In conclusion, the study reveals the vital importance of continuing reforms in the field of financial control, not only to improve administrative efficiency, but also to strengthen public confidence in the way state resources are administered.

## Keywords:

financial control; limits of financial control; legality; efficiency; effectiveness; economy.

## Article info

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Control in general, together with planning, organization, management and evaluation, represents one of the most important functions of the entity's management system and "represents a means of preventing illegal acts, identifying deficiencies and establishing the necessary measures to restore of legality" (Mihăescu 2015). This is achieved through a "permanent or periodic analysis of an activity, of a situation in order to follow its progress and to take measures to improve it" (DEX 2011).

In the last decade, Romania has gone through numerous economic and political changes that have significantly influenced the way public entities manage and control their finances. Economic growth, integration into European structures, as well as political fluctuations have brought to the fore the need for a robust and transparent financial control in the public sector. This complex dynamic has determined a continuous reassessment of financial control systems, with the aim of ensuring an efficient management of public resources and responding to the expectations of citizens and international bodies.

Financial control in public entities is not only a legal requirement, but also an essential pillar for ensuring responsible and efficient governance. In the Romanian context, where the public sector plays a significant role in the economy, an effective financial control is crucial for preventing the waste of resources, fighting corruption and promoting transparency.

Starting from the fact that managers, in the management activity, use as the main source the financial-accounting information viewed as a "communication, a piece of news or a message that contains new elements of knowledge of some states, some situations or the conditions of manifestation of certain phenomena or economic processes from the past, present or future" (Moroşan 2000), we believe that the quality and results of financial control depend both on ensuring an optimal use of public funds and on strengthening public trust in state institutions.

Through this article, we aim to investigate the current state of financial control in public entities in Romania, identifying both the progress made and the challenges that persist. The main objectives of the article are: the analysis of the legislative and institutional framework, the evaluation of the implementation of financial control practices and the identification of directions for improvement in this field. Through this approach, the study contributes to a deeper understanding of how financial control can be optimized to meet Romania's current and future needs in its unique economic and political context.

In what follows, we will explore the legislative and institutional framework that governs financial control in Romania, analyze current practices and discuss challenges and potential solutions to improve this essential system for the proper functioning of the public sector.

## Considerations regarding the directions for improving financial control in public institutions in Romania

Financial control is an important component of economic control, whose main purpose is to know and verify the way financial resources are managed and administered by economic entities (Mihăescu 2015). So, financial control represents “a knowledge process and a practice that encourages study, action and reflection” (Munteanu *et al.* 2020).

Financial control in Romania is defined by various legislative acts, which establish the framework and general principles of this process. In essence, financial control represents the set of activities and measures adopted by the state to ensure the efficiency, effectiveness, economy and legality of the use of public funds. “Depending on the choice of accounting policies, the financial results will differ” (Carataș 2020), so the results obtained as a result of the financial control activity are the starting point in the decision-making process of the entity.

Financial control in public entities in Romania is regulated by a complex legislative framework, which includes national laws, government ordinances, as well as European directives and regulations. Among the most relevant normative acts is Law no. 500/2002 on public finances, Law no. 273/2006 on local public finances, and Law no. 94/1992 regarding the organization and operation of the Court of Accounts. These laws establish the basic principles of financial control, including the responsibilities of public entities to manage funds efficiently, ensure transparency and respect the legality of expenditures.

In recent years, the legislation on financial control in Romania has seen several changes, reflecting both the adaptation to European standards and the response to specific internal needs. Recent changes include measures to increase transparency and accountability, as well as improve the effectiveness of financial control. For example, the introduction of electronic reporting and auditing systems has increased the capacity to monitor and evaluate public spending.

The legislative reforms had a significant impact on the way public entities in Romania manage their finances. The implementation of new standards and procedures led to a better management of financial risks and increased the degree of accountability and transparency (Oprean 2019).

In Romania, financial control is exercised at several levels and by various institutions. The Court of Accounts plays a key role in auditing public finances and assessing compliance with the legislation in force (Munteanu *et al.* 2020). Other relevant institutions include the Ministry of Public Finance, internal public audit structures, as well as internal financial control departments within each public entity. The roles and responsibilities of these institutions are clearly defined in the legislation, each having specific duties in the financial control process.

The objectives of financial control in Romania, as in many other countries, are diverse and aim to ensure an efficient, transparent and legal management of public resources. The main objectives can be summarized as follows:

**a) Legality and regularity:**

Verification of compliance of financial transactions and activities carried out by public entities with national legislation and with applicable European or international norms. This includes ensuring that expenditure is authorized and within approved budget limits.

**b) Efficiency and Effectiveness:**

Evaluating how public funds are used to determine whether established objectives are being achieved cost effectively and efficiently. This objective aims to maximize results with available resources.

**c) Economy:**

This objective focuses on minimizing costs without compromising the quality of purchased goods and services. It involves prudent and responsible management of financial resources.

**d) Transparency and accountability:**

Ensuring increased visibility and accessibility regarding the use of public funds. Transparency is essential to increase public trust and to enable effective civic monitoring and control. It is also necessary to create an environment in which every public entity and every person involved in the process of managing public finances is accountable for decisions and his actions. This includes the obligation to justify and explain how resources are used.

**e) Preventing and combating fraud and corruption:**

Identifying and reducing the risks of fraud and corruption in the management of public funds. Financial control must ensure effective mechanisms for detecting and preventing financial irregularities and abuses.

**f) Adaptability and continuous improvement:**

Continuous adaptation of financial control practices to changes in the environment, legislation and technology, as well as continuous improvement of control procedures and systems.

These objectives reflect Romania's commitment to ensuring a responsible and transparent management of public finances, an essential element for effective governance and for strengthening citizens' trust in state institutions.

From the point of view of the objectives and the time of implementation, the financial control exercised in our country can be classified into several main categories, as follows:

**a) Preventive Financial Control:**

This type of control is carried out before a financial operation is carried out. Its purpose is to verify the legality, regularity and sometimes timeliness of operations. It is an ex-ante control, which takes place before the hiring, liquidation and ordering of expenses (Sgardea 2017).

**b) Current or simultaneous operational financial control:**

This control overlaps almost entirely, in time and space, with the content of

ongoing economic and financial activities, allowing an operative intervention to correct errors and remove the causes that generated them. This type of control is exercised from within the entity.

**c) Subsequent financial control:**

This control is carried out after carrying out the financial operations. Its main purpose is to verify the legality and regularity of these operations and to identify possible irregularities. The subsequent control can be carried out by the Court of Accounts or other financial control bodies.

**d) Financial management control:**

It refers to the assessment of how financial resources are used within an entity to achieve the established objectives. This type of control focuses on performance and achieving results. The reporting of the results of the financial management control is carried out in accordance with the provisions of art. 10 para. 3 of the annex to GD no. 1151 of November 27, 2012.

These types of financial control are complementary and contribute to an integrated system of supervision and regulation of financial activities in the public sector in Romania. By combining these approaches, both compliance with the law and the efficiency and effectiveness of the use of public funds are ensured.

We believe that the main challenges regarding the exercise of quality financial control, which provide reasonable assurances that the entity's objectives will be achieved and aim to find solutions regarding: the lack of human and financial resources, the need for training and continuous professional development of the personnel involved in financial control, as well as technological difficulties such as implementing appropriate IT systems. Also, resistance to change and bureaucratic inertia can prevent adaptation to new procedures and standards (Popa 2000).

Despite the challenges, there are examples of good practices and innovations that can serve as models for improving financial control. These include the use of information technology to streamline audit and control processes, transparency and accountability initiatives, and collaboration between different public entities to share best practices.

The main limitations of financial control in Romania can be identified in several areas, reflecting both structural challenges and aspects specific to the local context:

**a) Human resource quality and limited institutional capacity:**

A major problem is the lack of qualified and trained personnel in financial control entities. This leads to low efficiency and delays in carrying out audits and financial evaluations.

**b) Bureaucracy and inefficient processes:**

The financial control system in Romania is often characterized by complex and inefficient bureaucratic procedures, which can slow down the audit process and reduce control effectiveness.

***c) Insufficiently developed technology and IT systems:***

Digitization and automation of financial control processes are still in their infancy in many public entities. The lack of integrated and modern IT systems limits the ability to quickly and efficiently analyze financial data.

***d) Lack of transparency and responsibility:***

There is often a lack of transparency in the presentation and publication of financial data. This affects public trust and limits the possibilities for civic oversight over the management of public funds.

***e) Ambiguous or continuously changing legal framework:***

Legislation governing financial control can sometimes be ambiguous or subject to frequent changes, which creates uncertainty and difficulties in the consistent application of the law.

***f) Resistance to change and organizational culture:***

In some public entities, there is a resistance to change, either because of habit or because of vested interests. This can prevent the implementation of more effective financial control practices.

***g) Inadequate funding:***

Insufficient funding of financial control entities can limit their ability to conduct thorough audits and develop professionally.

***h) Conflict of interest and corruption:***

In some cases, there are risks of conflict of interest or even corruption, which can undermine the integrity and effectiveness of financial control.

Addressing these limitations requires a coordinated effort that includes legislative reforms, investment in human and technological resources, improving control processes, and promoting a culture of transparency and accountability. These actions should be accompanied by a firm commitment from the authorities to improve the financial control system in Romania.

In our opinion, based on the analysis of the context of financial control in public entities in Romania, we can identify several main directions for improvement, namely:

***1. Intensification of digitization and automation:***

The implementation of advanced technological solutions for the automation and digitization of financial control processes can increase efficiency, accuracy and transparency. The use of integrated IT systems would facilitate real-time monitoring and analysis of financial data.

***2. Strengthening institutional capacity:***

Improving the training and professional development of staff involved in financial control is essential. This includes both training in financial law and auditing practices as well as developing digital skills.

***3. Improving the Legislative Framework:***

Updating and simplifying relevant legislation to reflect international best practice and to respond more effectively to current needs. Clarifying and standardizing procedures can reduce ambiguities and improve compliance.

**4. Promoting Transparency and Accountability:**

Fostering a culture of transparency and accountability among public entities. This can be achieved by regularly publishing audit reports and financial data, thereby facilitating public oversight and increasing citizen confidence.

**5. Strengthening Internal and External Audit:**

Strengthening internal and external audit functions through additional resources, specialized training and a clear mandate to assess and improve financial control.

**6. Integration of Risk Management:**

Implementation of effective risk management within financial control processes. This involves the identification, assessment and proactive management of potential financial risks (Păunescu 2021).

**7. Inter-institutional collaboration:**

Encouraging collaboration and exchange of best practices between different public entities and financial control institutions. This may include partnerships, networks and exchange programs.

These improvement directions aim not only at increasing the efficiency and effectiveness of financial control, but also at strengthening public trust in the integrity and transparency of the management of public funds. Implementing these improvements will require a coordinated and sustained effort from all stakeholders.

## Conclusion

The detailed analysis of financial control in public entities in Romania revealed important aspects, both positive and negative. Significant progress has been made in digitizing processes and strengthening the legislative framework, but there are still major challenges related to institutional capacity, the efficiency of control processes and transparency in the management of public funds.

The findings of this study have important implications for policy formulation and financial control practices. They highlight the need for an integrated and coherent approach to improving the financial control system. This involves investing in human resources, technology and infrastructure, as well as adopting more transparent and accountable practices.

Based on the analysis performed, we can formulate the following recommendations:

- it is essential to intensify the efforts for training and continuous professional development of the personnel involved in financial control;
- accelerating digitalization and automation processes to increase the efficiency and transparency of financial control;
- revising and simplifying the legislation to remove ambiguities and facilitate the effective application of the rules;

- encouraging a culture of transparency through the regular publication of audit reports and financial data;
- strengthening internal and external audit functions by allocating adequate resources and specialized training;
- the adoption of a proactive risk management within the financial control processes.

In conclusion, financial control in public entities in Romania is in a continuous process of evolution and adaptation. Efforts to reform and improve must continue, taking into account changes in the economic, social and technological environment. An efficient and transparent financial control is essential not only for an adequate management of public resources, but also for strengthening citizens' trust in state institutions.

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