

## THE PERFORMANCE IN THE ROMANIAN COURT OF ACCOUNTS' SPECIFIC ACTIVITY

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**Abstract.** *This article aims to analyze the performance in terms of audit specific activity work of the Romanian Court of Accounts. There are also analyzed the results obtained by the institution in the last 3 years, i.e. 2012-2014, in order to obtain an overview of the performance recorded during this period. However, the article presents the performance evaluation system of this institution, introduced in 2014, which entails to identify solutions which can lead to improved performance of the Romanian Court of Accounts activity. The information contained in this material is in addition to that presented at the international conference "Gestion des Ressources et Gouvernance" hosted by IFAG in Sofia, Bulgaria.*

**Keywords:** control, audit, performance management, supreme audit institution, public finances

**JEL Classification:** M42

### 1. Introduction

The Romanian Court of Accounts is a public authority of constitutional rank, which aims is set out by article 140 par. (1) of the Romanian Constitution, which provides: "Art. 140 (1) The Court shall exercise the control over the formation, administration and use of the financial resources of state and public sector ...", thus representing the supreme audit institution and control of the Romanian state.

The importance of this institution is vital for the proper functioning of a democratic state, member of the European Union. A strong and independent Court of Accounts ensures a climate of stability, especially in conditions of economic crisis, as it was the case of the recent financial and economic crisis that started in 2008 and which affected all of Europe.

The importance of the Supreme Audit Institutions is recognized at the United Nations, being adopted at the 69th General Assembly a new resolution [1] which clearly defines the necessary conditions for the effective functioning of these

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institutions in order to promote sustainable development of public administration internationally.

## **2. The Romanian Court of Accounts, the supreme audit institution in Romania**

The Romanian Court of Accounts is organized as a collegiate body, consisting of 18 counselors of accounts appointed by the Romanian Parliament for a term of 9 years, which cannot be extended or renewed. The executive management is ensured by the Court of Accounts' President and two Vice-Presidents. The Court's staff is composed of specialized personnel (external public auditors, performing the Romanian Court of Accounts' specific activity of audit and control), public servants and contractual staff. Together with the Romanian Court of Accounts is working the Audit Authority for external funds granted to Romania in the accession period, as well as the funds granted to Romania's post-accession, as a Member State of the European Union. The Audit Authority is headed by a president and two vice presidents, members of the Romanian Court of Accounts' Plenum. In terms of organizational structure, the Romanian Court of Accounts includes a central structure (12 departments led by a counselor of accounts), 42 County Chambers of Accounts (which provide audit and control at the local level) and 8 regional audit offices (territorial structures of the Audit Authority).

The specific activity carried out by the Romanian Court of Accounts is represented by three types of audits under the *Regulation on the organization and carrying out the specific activities of the Court of Accounts, and the documents resulting from these activities*:

- *Compliance audit (control)*: activity designed to verify and monitor whether the management of public and private patrimony of state and administrative-territorial units and also whether the execution of revenue and expenditure budgets of the controlled entity are consistent with the purpose, objectives and tasks set out in the regulations by which the entity was founded and whether it complies with the principles of legality, regularity, economy, efficiency and effectiveness;
- *Financial Audit*: activity which seeks whether the financial statements are complete, accurate and in compliance with laws and regulations and whether the governance of public and private patrimony of state and administrative-territorial units and the implementation of revenue and expenditure of the audited entity are in accordance with the purpose, objectives and tasks set out in regulations by which the entity was founded and the compliance with the principles of legality, regularity, economy, efficiency and effectiveness, while providing an opinion to this effect.

- *Performance audit*: an independent evaluation of the way that an entity, program, project, process, activity or operation works in terms of economy, efficiency and effectiveness.

## 2.1. Additional revenues and damages

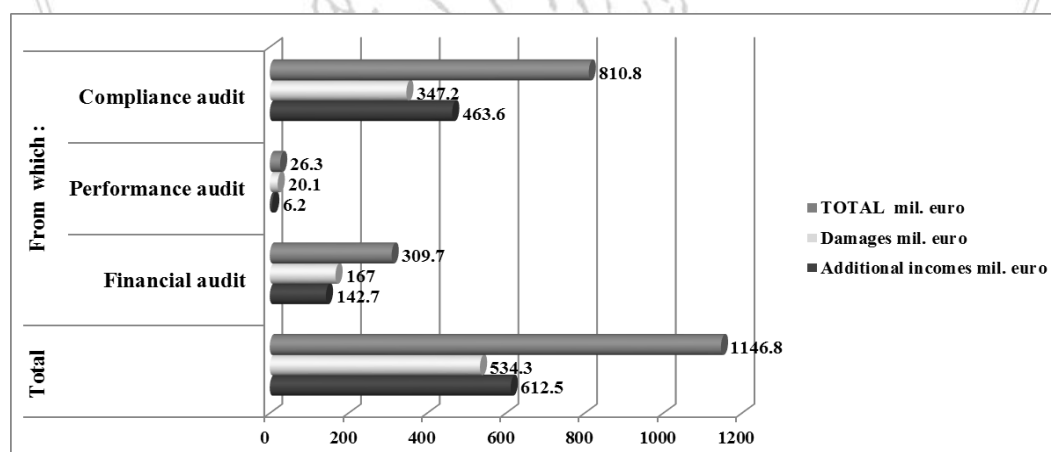
The audit missions and control actions carried out by the Court of Accounts in 2014, by performed its specific activity, identified some deviations within the entities, in the way of establishing, recording and tracking the revenues collection to the budget and the legality of commitment, liquidation, ordering of and payment for public funds. For example, only in 2014 along with the verification of the audit objectives and control activities in 2501 entities, there were identified 25,529 cases of violations of budgetary, economic and accounting discipline.

**Table 1)** Assessment of the financial impact of irregularities by types of verification actions in 2014 (mil. EURO)

| Explanations        | Monetary unit | Total         | Of which:       |                   |                            |
|---------------------|---------------|---------------|-----------------|-------------------|----------------------------|
|                     |               |               | Financial audit | Performance audit | Compliance audit (control) |
| Additional Revenues | mil. euro*    | 612,5         | 142,7           | 6,2               | 463,6                      |
| Damages             | mil. euro*    | 534,3         | 167             | 20,1              | 347,2                      |
| <b>TOTAL</b>        | mil. euro*    | <b>1146,8</b> | <b>309,7</b>    | <b>26,3</b>       | <b>810,8</b>               |

**Source:** The Romanian Court of Accounts' Annual Activity Report (2014)

\* It was used the average exchange rate LEU (RON) / EURO of 4.44 in 2014, announced by the National Prognosis Commission's Autumn Forecast, November 2014.



**Source:** The Romanian Court of Accounts' Annual Activity Report (2014)

From the data presented above, we can observe that in 2014 there were found deviations whose financial impact is estimated to 1146.8 mil. euro, of which more

than half, i.e. 612.5 mil. euro representing additional revenues. Most of the additional revenues were found when conducting compliance audits (control), respectively 463.6 mil. euro (approx. 3 times of the estimated amount of additional revenues found when conducting financial audits).

According to its own methodology, when irregularities and deviations from the framework legislation or the legislation regulating the incorporation, organization, operation and tasks of the examined entity are found during examination actions, the representatives of the Court of Accounts estimate the value of the deviations found, communicate such deviations to the managers of the examined entity, then record them in the documents drawn up at the end of the examination missions, and then issue decisions providing for:

- a) the suspension of the measures that violate the legal financial, accounting and fiscal regulations;
- b) the blocking of the budgetary or special funds when they are found to be illegally or inefficiently used;
- c) the removal of the irregularities found in the financial-accounting or fiscal activities subject to examination.

According to Art. 33 (3) and (4) of Law no. 94/1992 on the organization and operation of the Court of Accounts, republished, as subsequently amended and completed, the following procedure is followed:

- where deviations from legality and regularity are found to have caused damages, the situation is communicated to the management of the audited public entity. The management of the audited public entity shall assess the scope of the damage and take recovery measures;
- where the audit reports identify suspected criminal acts, the competent authorities must be notified for follow-up, and the audited entity must be informed.

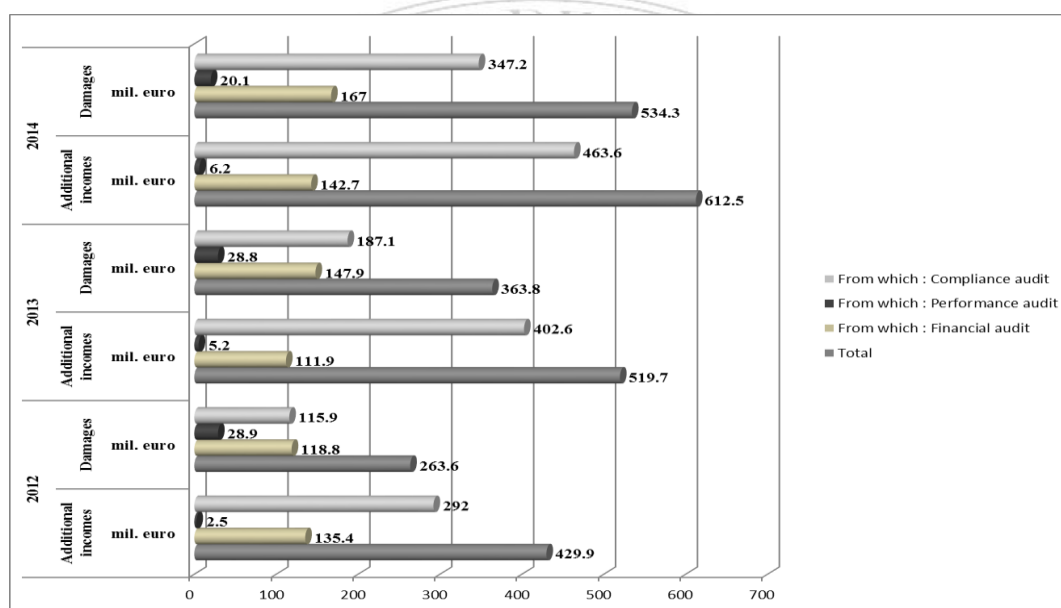
Regarding the results of the Romanian Court of Accounts on the deviations noted in the last 3 years of activity (2012-2014), the situation is as follows:

**Table 2)** The evolution of the financial impact of irregularities by types of verification missions in the period 2012-2014 (EUR million)

| Year | Explanations        | Monetary Unit | Total        | Of which:       |                   |                            |
|------|---------------------|---------------|--------------|-----------------|-------------------|----------------------------|
|      |                     |               |              | Financial audit | Performance audit | Compliance audit (control) |
| 2012 | Additional revenues | mil. euro     | <b>429,9</b> | 135,4           | 2,5               | 292                        |
|      | Damages             | mil. euro     | <b>263,6</b> | 118,8           | 28,9              | 115,9                      |

|             |                     |           |              |       |      |       |
|-------------|---------------------|-----------|--------------|-------|------|-------|
| <b>2013</b> | Additional revenues | mil. euro | <b>519,7</b> | 111,9 | 5,2  | 402,6 |
|             | Damages             | mil. euro | <b>363,8</b> | 147,9 | 28,8 | 187,1 |
| <b>2014</b> | Additional revenues | mil. euro | <b>612,5</b> | 142,7 | 6,2  | 463,6 |
|             | Damages             | mil. euro | <b>534,3</b> | 167   | 20,1 | 347,2 |

Source: Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)



Source: Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

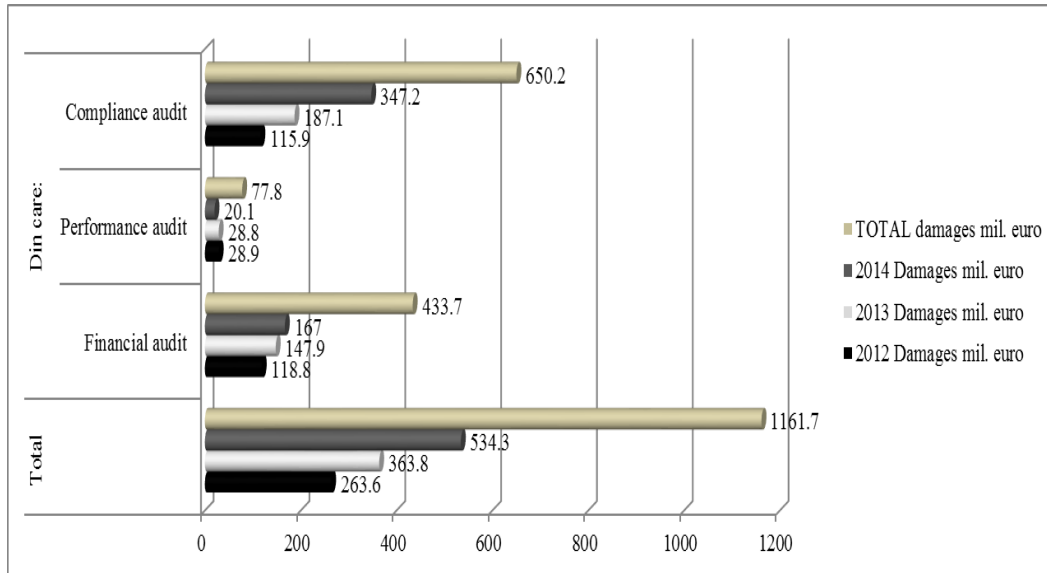
Analyzing the graphic above, it appears that the greatest value of the additional revenues was found in 2014 (during the verification missions of the budgetary year 2013), ie 612.5 mil. euro versus 519.7 million euro recorded in 2013 and 429.9 million euro recorded in 2012.

Table 3) The evolution of damages in the period 2012-2014 (mil.euro)

| Year                 | Explanations | Monetary Unit    | Total          | Of which :      |                   |                            |
|----------------------|--------------|------------------|----------------|-----------------|-------------------|----------------------------|
|                      |              |                  |                | Financial audit | Performance audit | Compliance audit (control) |
| 2012                 | Damages      | mil. euro        | 263,6          | 118,8           | 28,9              | 115,9                      |
| 2013                 | Damages      | mil. euro        | 363,8          | 147,9           | 28,8              | 187,1                      |
| 2014                 | Damages      | mil. euro        | 534,3          | 167             | 20,1              | 347,2                      |
| <b>TOTAL damages</b> |              | <b>mil. euro</b> | <b>1.161,7</b> | <b>433,7</b>    | <b>77,8</b>       | <b>650,2</b>               |

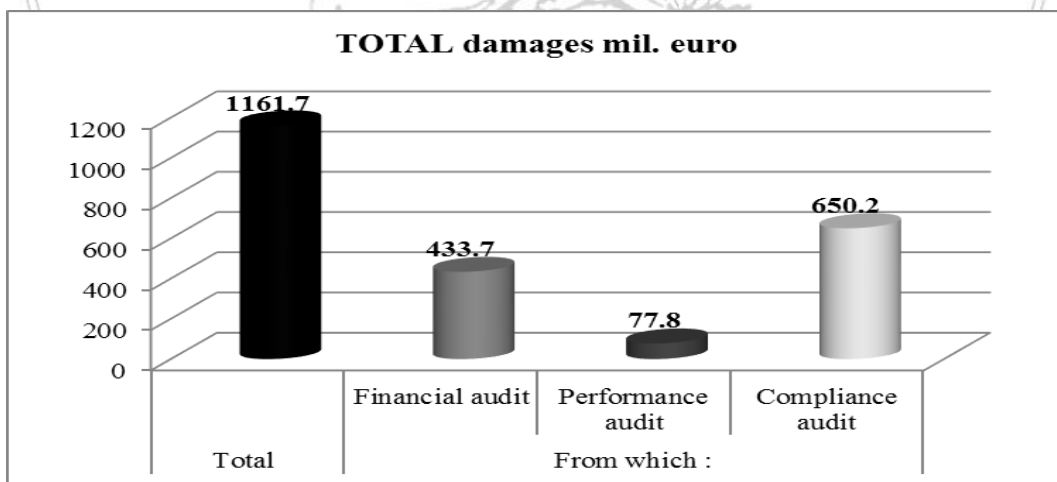
Source: Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

The distribution of damages found in the period 2012-2014 depending on the type of audit



**Source:** Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

The analysis of the data presented shows that the most of the damages was found in 2014 (650.2 mil. euros) during the compliance audits (control). However, the damages found during compliance audits in 2014 is the most important part of the total damage found in 2012-2014.



**Source:** Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

As concerns the damages found in the last 3 years, the graphic shows an upward trend from 263.6 mil. euro in 2012 to 534.3 mil. euro in 2014 (almost double of the one recorded in 2012).

## 2.2. The degree of implementation of the recommendations issued by the Court of Accounts

In 2014, as a result of the audits and control missions, there were issues 18.441 measures, that audited entities must implement to eliminate the deficiencies and irregularities, determining the extent of damages and taking action for recovering them.

**Table 4)** Measures implemented from the measures issued (evolution 2012-2014)

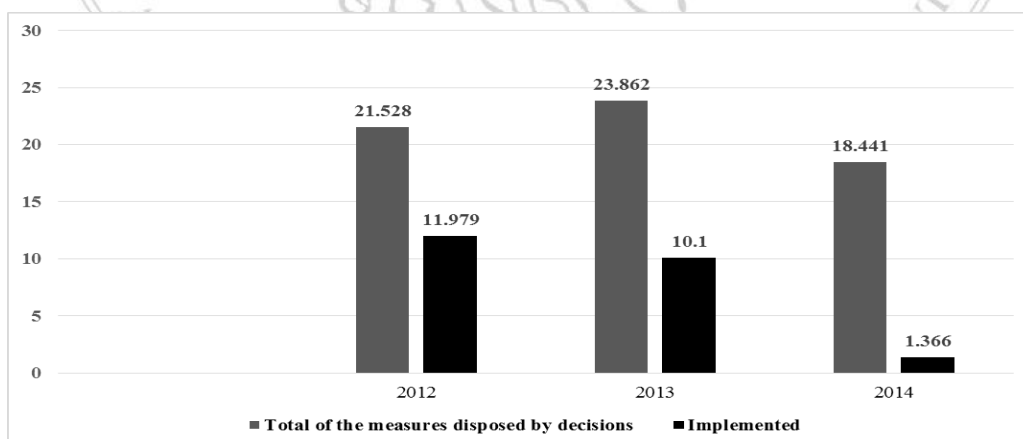
| Year | The total of the measures disposed by decisions | Implemented |
|------|---|-------------|
| 2012 | 21.528  | 11.979      |
| 2013 | 23.862  | 10.100      |
| 2014 | 18.441  | 1.366       |

**Source:** Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

From the 18.441 measures disposed by decisions, a number of 14.674 measures were issued due to the financial audits, 823 as a result of performance audit missions and 2,944 from the control actions.

Analyzing the period 2012-2014, we note that in 2012 the degree of implementation of the measures ordered by decisions is 55.64%, in 2013 is 42.32% and the degree of implementation in 2014 is 7.40%.

### The share of the measures fully implemented in the measures disposed by decision by the Court of Accounts



**Source:** Romanian Court of Accounts's Annual Activity Reports (2012, 2013 and 2014)

Most of the measures decided on the basis of the 2014 audit and control reports for the 2013 budgetary year were not implemented yet, either because they are pending resolution of contestations, or they are due to expire in the following period and will be examined in the course of 2015. The Court of Accounts is able to monitor the implementation of the ordered measures on a permanent basis, after an approximately 3-year cycle, also taking into account the duration of the legal actions pending before various courts of first instance and courts of appeal.

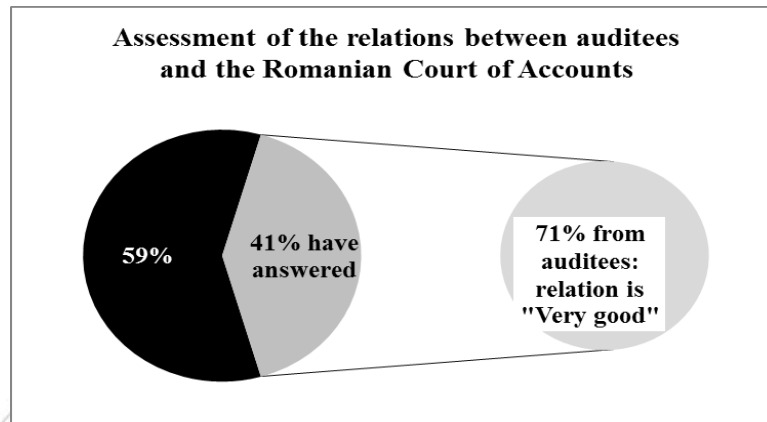
### **3. Performance evaluation system of the Court of Accounts**

In 2014, the Romanian Court of Accounts introduced experimentally the "Performance Evaluation System of the Court of Accounts", which seeks regular analysis of how control and audit activities are realized and distributed, in order to identify the strengths and weaknesses that appear in the activity of the specialized personnel (external public auditors) and to find solutions that can improve the Court of Accounts' performance and public financial management of the examined entities.

One of the most important indicator used is "Opinion of the examined entities' management on the quality of the audit performed by the Court of Accounts and its impact on the examined entities, as well as on the compliance by external public auditors with ethical principles and values" by which the Romanian Court of Accounts has implemented a provision of the ISSAI 30 Standard – INTOSAI Code of Ethics, according to which the Supreme Audit Institutions (including the Romanian Court of Accounts) should obtain information about the stakeholders' perception of the independence and impartiality of the external public auditors during audit and control.

The information are obtained through questionnaires that are sent sent electronically to all audited entities, after the completion of the audit and control actions. Subsequently, this information is used to express and measure this indicator.





**Source:** The Romanian Court of Accounts' Annual Activity Report (2014)

According to the Romanian Court of Accounts' Annual Public Report for 2014, In 2014, more than 2.600 questionnaires were sent, receiving over 1.100 responses (41%). Most entities who responded to those questionnaires (71%), assessed the relationship between them and the Court of Accounts as "very good".

### Conclusions

Any entity aims performance, this being the only way to grow and progress. The performance management is a long term investment, whose effects can be seen from the results obtained. Measurement of the results obtained must be closely related to the stages of implementation of the performance management system, starting with the measurement of the objectives, indicating the level of the targets fixed.

Regarding the role of management, it should create an appropriate environment, for the employees to understand the benefits of performance measurement and their roles and how their efforts contribute to the success of the institution.

The first prerequisite for improving the performance of the Romanian Court of Accounts is a system of performance measurement. The system of indicators that measure the performance, introduced by the Court of Accounts experimentally in 2014, by its constructive approach towards the auditees, has been successful in terms of measuring the achievement of its activities, but also in terms of identification of weaknesses and strengths, thus identifying solutions to improve the performance of the institution.

The performance measurement is very important as regards the prospects of an organization. Through it, the organizations have the ability to determine the extent to which the objectives were achieved and to develop future initiatives in order to improve their activity.

## REFERENCES

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