
Implications of modifying internal managerial control regulations for a uniform risk management methodology regarding non-reimbursable financing

Ciprian Nicolae^{1*}

¹⁾ Bucharest Academy of Economic Studies, Bucharest, Romania

Abstract

For the public authorities and institutions in Romania, risk management is an obligation established by the regulations on internal managerial control. Therefore, any changes to these regulations have an impact on the consistency and sustainability of the risk management measures implemented, including in the case of non-reimbursable financing programs.

This paper analyses the provisions of the internal managerial control regulations in view of the impact they may have on the implementation of a unitary risk management methodology for all non-reimbursable funds in Romania.

The proposed methodology would apply to all non-reimbursable grants in Romania, both nationally and from international donors (the European Union, the Governments of Norway, Iceland and Liechtenstein, etc.), as the logic of non-reimbursable funding is the same for all funding programs.

The proposed methodology also aims at computerizing the risk management process based on a unique risk register and rigorous organization of information collection and use of the risks, causes and effects.

Key words: risk, risk management, non-reimbursable financing, projects, managerial internal control

JEL classification: G32, H83

*Corresponding author, Nicolae Ciprian – ciprian.nicolae@proiecteue.ro

Introduction

According to the official data published on the website of the Ministry of European Funds, on 30.06.2018, Romania registered 18.52% amounts received from the European Commission's Structural and Investment Funds, out of a total of 30,882,649,965 Euro. By types of funds, the European Commission transferred to Romania 37.30% of rural development funds, 12.88% of the funds for fisheries and only 11.81% of the structural and cohesion funds for the financial period 2014-2020.

On 30.09.2018, the website of the Ministry of European Funds showed that the EU executive had transferred 19.14% of the total funds available to Romania (both advances and reimbursements). Out of these, the amounts that can be taken into account for calculating the absorption rate (reimbursements) were only 13.40%.

The situation is more alarming if we make a comparison between the first years of the financial periods 2007-2013 and 2014-2020. The table below shows that Romania had a lower absorption efficiency of structural and cohesion funds in the current financial period than in the previous one, but also compared to other EU member states (Table 1).

Table no. 1 - Situation of the absorption rate of the Structural and Cohesion Funds in the first years of the financial periods 2007-2013, respectively 2014-2020

Country	2007	2008	2009	2014	2015	2016
Bulgaria	2,20%	5,58%	9,63%	0,09%	2,10%	8,41%
EU28 average	1,97%	5,28%	12,69%	0,35%	3,29%	8,98%
Poland	2,08%	5,35%	13,02%	0,34%	2,18%	8,68%
Romania	2,22%	5,64%	10,48%	0,00%	2,97%	6,91%

Source: own processing of data available at <https://cohesiondata.ec.europa.eu>

An obvious reason for the low absorption rate is the management of risks regarding the non-reimbursable financing, carried out both by the authorities and public institutions responsible for financing, as well as by the applicants and the beneficiaries of the funding. For example, the analysis of one of the global risks mentioned by the author in previous works (Badea & Nicolae, 2015b) - the risk of financial corrections - leads to worrying conclusions regarding the use of European funding by Romania. Thus, according to a reply received in June 2017 to a freedom of information law request, which the author submitted to the Ministry of Regional Development, Public Administration and European Funds (MDRAPFE), the total financial corrections on operational programs financed from structural and cohesion funds 2007-2013 was 587,031,685.35 Euros (figure 1), ie approximately 3.05% of the total initially allocated funds to Romania (19.231 billion Euros).

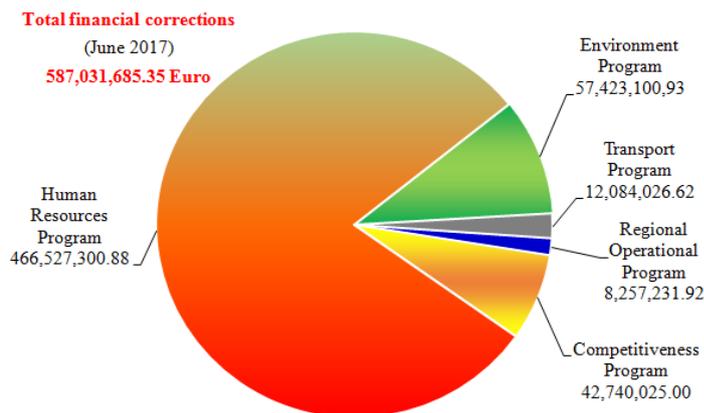


Figure no. 1 - Situation of the financial corrections applied by the European Commission to Romania under the main structural and cohesion funds 2007-2013 programs

Source: own processing of the data received from MDRAPFE

If for the applicants and beneficiaries of funding, it is recommended to use a guide / guideline to develop risk management methodologies at project level (Nicolae & Badea, 2017), as regards the public authorities and institutions responsible for managing non-reimbursable financing, the situation seems more complex. Thus, they underline the activity of multiple regulations covering all public administration activity, including those that do not specifically address the scope of non-reimbursable funding.

One of the main regulations with impact on risk management is the one on internal managerial control, which was originally introduced in Romania in 2005 and now crosses the second major change. This regulation has been thoroughly analysed by the author in order to determine the implications of its modification on the content of the unique risk management methodology in the management of the non-reimbursable financing the author proposes to be implemented in Romania.

It has to be emphasized that the literature has not so far touched on the subject covered by this article, namely that the very risk management analysis in the management of the grants is at the beginning. The latter was introduced by the author through the research carried out within the doctoral studies conducted within the Academy of Economic Studies in Bucharest during the period 2014-2018.

Therefore, the research methodology used to obtain the results presented in this article was based on the analysis of the regulations in the field of internal managerial control, namely on the non-reimbursable financing, on the analysis of official documents about the use of European funding published by the European Commission and the Ministry of European Funds in Romania and on the analysis of the information and documents obtained by the author using the provisions of the freedom of information law no. 544/2001.

The paper is structured in four chapters, the first one presenting the specialized literature in the field of internal managerial control, from the perspective of the elements that can be correlated with the present research paper. The second chapter presents the three

regulations regarding the managerial internal control - MFP Order no. 946/2005, SGG Order no. 400/2015 and SGG Order no. 600/2018 - pointing out the key issues of each of them. The third chapter makes a comparative analysis of the regulations presented in Chapter 2, detailing a number of critical considerations on them.

The fourth chapter presents the author's proposal for a unitary risk management methodology for non-reimbursable financing. The work ends with the author's conclusions regarding the implications of amending the regulations on internal managerial control over the methodology presented in the fourth chapter.

1. Recent scientific literature on internal managerial control

The scientific literature on internal managerial control deals mainly with the roots and evolution of the regulation, not focusing on its applicability in the field of non-reimbursable financing. Thus, some papers focus on presenting roots and internal control models in Romania (Teodorescu, 2015) pointing out the definitions of internal control, the principles of the classic internal control model (COSO model), respectively the transition to the managerial internal control introduced by the Ministry of Public Finance Order no. 946/2005. The author concludes that for managers, a formal internal control system, integrated within the general management of the organisation, based on procedures and regulations, leads to the achievement of the organization's objectives in an economical, effective and efficient manner.

Some works (Crăciun & Băloi, 2014) focus on the analysis of malfunctions in the application of internal managerial control system (SCIM) within the public institutions in Romania. From the point of view of this paper, the conclusions are related to the fact that some public institutions do not understand the real utility of SCIM and its standards. Compliance, for its use, is due to the regulatory obligation, and the practice of using it proves managers' perception that this system is not favourable and does not support their work. Therefore, the use of SCIM is questioned by those who should promote it.

Other works attempt to highlight the importance and impact of the use of internal managerial control within the public institutions in Romania, as well as the consequences of its non-implementation (Stegăroiu & Iliodor & Panagoreț & Mubben, 2015). It is underlined that the effects of SCIM correct implementation within the public institutions lead to greater trust in state institutions, with direct consequences on the increase of foreign direct investments. Therefore, a state with weak public institutions, which does not implement adequate internal controls appropriate to identify dangerous phenomena such as fraud and corruption, cannot win the trust of investors, creating the impression of instability. Regarding the non-reimbursable funds, especially those from the European Union, the authors' conclusion is correct, as demonstrated by the corrections applied by the European Commission to Romania on several operational programs for the 2007-2013 financial period, as presented above. Another issue pointed out by the authors is the "risk register by field of activity", considered to be an important component in risk management at the level of a public institution.

Last but not least, there are authors who analyse the strategy for the development of managerial internal control in Romania, pointing to the approaches taken by the authorities after the adoption of SGG Order no. 400/2015 (Popescu & Popescu & Gâlcă, 2017). They manage to synthesize a number of weaknesses in the SCIM implementation and development, out of which the most important for the present research is the lack of a uniform methodology for the national implementation of SCIM, i.e. the inadequate risk management within the entities by failing to meet the requirements of Standard 8 - Risk management in most public entities, with direct effects of missing risk registries and / or not updating them due to inappropriate training of risk managers.

2. Internal managerial control regulations

The first regulation in the field of internal managerial control was enforced in 2005 under the umbrella of the Ministry of Public Finance - Central Harmonization Unit of Financial Management and Control Systems. This is because the MFP Order no. 946/2005 refers primarily to public finance legislation, focusing on the effectiveness, efficiency and economy in the use of public financial resources. In addition, at that time, the Ministry of Public Finance was perhaps the most important synthesis ministry in the Romanian Government.

Ministry of Public Finance Order no. 946/2005 stated that the minimum management rules that all public entities should follow were 25 internal managerial control standards grouped into 5 key elements: (1) the control environment, (2) the performance and risk management, (3) information and communication, (4) control activities and (5) auditing and evaluation.

The key element "performance and risk management" was related to management issues regarding goal setting, planning (multi-annual planning), scheduling (management plan), and performance (performance monitoring). This included Standard 11 - Risk Management, Order no. 946/2005 stating that "an efficient internal managerial control system implies the implementation of risk management within the public entity".

Risks were defined as events that may affect the achievement of objectives, such as any "action or inaction that poses a risk of failure to achieve the objectives." Risk management was also defined as "a methodology to ensure overall risk control that allows for an acceptable level of exposure to risk to the public entity at minimal cost."

Ministry of Public Finance Order no. 946/2005 provided that the management of the public organization had the obligation to "identify risks and undertake those actions that place and keep risks within acceptable limits". The regulation required a balance to be ensured between the acceptable level of risk and the costs involved in these actions, namely that "risks are acceptable if measures to avoid them are not justified on a financial plan."

Ministry of Public Finance Order no. 946/2005 states that "the manager has the obligation to create and maintain a sound internal management system, following several key steps, presented in Figure 2. The public entity has the obligation to systematically analyse, at least once a year, risks related to the conduct of their own activities, to develop plans for limiting the consequences of the risks, and to establish the responsible persons to implement these plans.

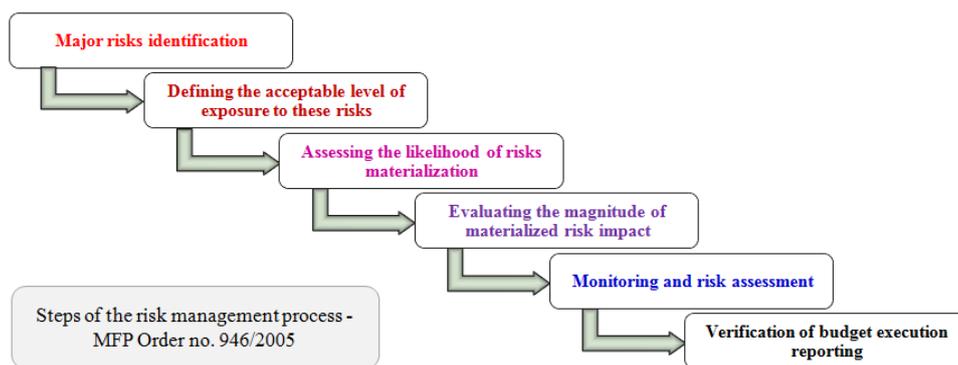


Figure no. 2 - The main stages of risk management according to MFP Order no. 946/2005

Source: own adaptation of MFP Order no. 946/2005 provisions

It should be stressed that this regulation did not expressly include any model document that could be used to fulfil the obligations set for risk management, in this respect the leadership of the public authorities / institutions having the freedom of self-organization. Ministry of Public Finance Order no. 946/2005 was repealed in 2015 and the provisions in the field of internal / managerial control were replaced with those in the Order of the General Secretariat of Government no. 400/2015, which implements a different approach.

Thus, it is first and foremost a focus of the internal / managerial control on the identification, prioritization and management of risks, namely its organization in order to achieve three categories of permanent objectives: (1) "objectives regarding the efficiency and effectiveness of the operation", (2) "objectives on the reliability of external and internal information" and (3) "objectives on compliance with domestic laws, regulations and policies".

Secondly, this regulation establishes the creation, at each public entity level, of structures responsible for managing the internal managerial control: the monitoring committee, the risk officer, the risk management team.

Thirdly, the General Secretariat of the Government is designated through the Directorate for Internal Managerial Control and Interinstitutional Relations (DCIMRI) as an entity that "develops and implements policy in the field of managerial internal control system, coordinates and supervises through verification and methodological guidance activities the implementation and development of internal managerial control systems within public entities".

Order SGG no. 400/2015 refers to 16 internal / managerial control standards, grouped on the same five key elements of the previous regulation. The 16 standards are considered to be a "benchmarking system against which the internal managerial control systems are assessed, identify the areas and directions of change. "Moreover, it was stated that their purpose was "to create a uniform and coherent managerial internal control model that

would allow comparisons between entities of the same kind or within the same entity at different times and make it possible to highlight the results of the entity and of its evolution". We consider this as an incipient phase of introducing the benchmarking system (Wikipedia, 2018) into the Romanian public administration, covering the comparison of the working practices of public organizations but opening the possibility of implementing the best practices that will crystallize in the implementation of the internal managerial control processes.

The key element "performance and risk management" also covers the same in the new regulation: "management issues related to goal setting, planning (multi-annual planning), scheduling (management plan) and performance (performance monitoring)." Moreover, the definition of risk management is similar in both regulations.

The public entity manager is also required to create and maintain an "effective risk management system", following the steps in Figure no. 3.

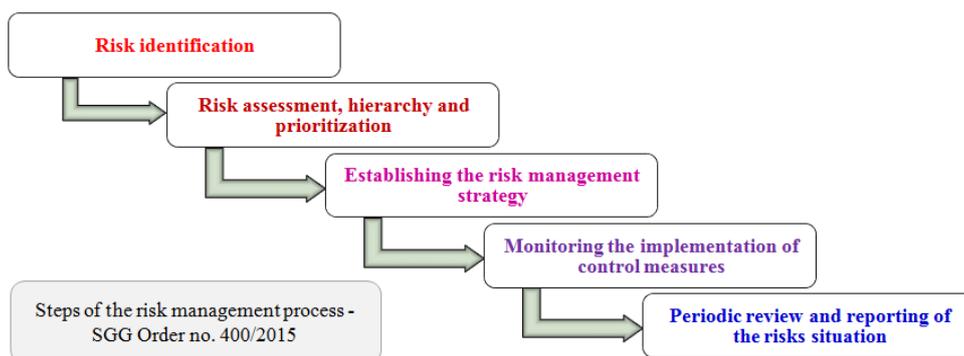


Figure no. 3 - The main phases of risk management according to MFP Order no. 400/2015

Source: own adaptation of MFP Order no. 946/2005

A first significant change in SGG Order no. 400/2015 in comparison with the MFP Order no. 946/2015 aims at defining a more complex risk, namely as "a problem (situation, event, etc.) that has not yet occurred but which may occur in the future, in which case obtaining of the previously fixed results is threatened or intensified. In the first situation, risk is a threat, and in the second, risk is an opportunity. Risk is the uncertainty in achieving the desired results and should be seen as a combination of probability and impact".

A second change that deserves attention is the creation, by centralizing the risk registers elaborated at department level, of the Risk Register at entity level. The regulation also includes a Risk Register model to be used in the risk management process.

The third change is the inclusion of a self-assessment model of the stage of implementation of the internal managerial control standards, which has a section dedicated to risk management.

Order of the General Secretariat of the Government no. 400/2015 was repealed in 2018 and the provisions in the field of internal managerial control were replaced by the provisions of the Order of the General Secretariat of Government no. 600 / 2018. This latter regulation, currently in force, is in fact an updated version of Order no. 400/2015, to which it brings a series of conceptual modifications and completions.

Thus, for example, the objective system refers to seemingly new categories (1) operational objectives, (2) reporting objectives and (3) compliance objectives, although in fact they are a reformulation of the objectives set out in Order 400 / 2015.

Also, risk management and risk are presented slightly differently in Order no. 600/2018. Thus, risk is defined as "a situation, an event that has not yet occurred, but which may occur in the future, in which case the obtaining of previously fixed results is threatened or potentiated, thus the risk may be either a threat or an opportunity, treated as a combination of probability and impact".

It should be noted that in both orders issued by SGG reference is made to a series of requirements that must be met for the existence of a viable internal control, namely:

- “to be adapted to the size, complexity and environment of the entity;
- to target all levels of management and all activities / operations;
- to be built with the same "instrument" in all public entities;
- to ensure that the objectives of the entity are attained;
- the costs of applying the internal management control system are inferior to the benefits resulting from it;
- to be governed by the minimum general management requirements provided in the managerial internal control standards”.

3. Critical reviews on internal managerial control regulations - the standard for risk management

A comparative analysis of the internal managerial control regulations, on the risk management standard, reveals several similarities and differences between them. By way of example, a similarity is the overall view that internal managerial control is the responsibility of the heads of public entities, who are required to design, implement and develop it continuously.

More importantly to be distinguished are differences between regulations. In particular, the provisions of SGG Order no. 600/2018, in force, but also those of SGG Order no. 400/2018, can be criticized, at least for the following eight issues that we consider important.

First, if in the MFP Order no. 946/2005 the risk was presented as an event that may affect the achievement of the objectives, in the current regulation it is defined as a problem where the results and / or objectives set are threatened or enhanced. Thus, we find the risk considered from two perspectives: as a threat (negative element) or as an opportunity (positive element).

In our view, defining risk as an opportunity in the public sector, especially as regards access to grants, cannot be accepted. This is because, on the one hand, the organizations managing projects have limited resources, which they use to achieve clear and quantifiable objectives, i.e. to achieve well-defined results. On the other hand, even the major donor for the projects implemented in Romania, the European Commission, defines in its Guide on Project Cycle Management the risk as the possibility that an event or action adversely affects the achievement of the project's objectives or activities. Therefore, it is imperative that the risk be viewed only in terms of its negative connotation.

Second, the SGG Order no. 600/2018 establishes among the requirements that a viable internal control must be fulfilled and that it is "built with the same" instrumental "in all public entities". From this provision, as well as from other normative acts, there is a need for a unitary framework for the application of the internal managerial control, implicitly for a unitary approach to risk management. This gives rise to a number of questions that are still unanswered in the regulation:

- How can a unitary risk management be ensured in the case of an authority / institution that have a complex, general administration activity combined with management of non-reimbursable financing compared to the case of an authority / institution that would have exclusively activities related to management of non-reimbursable financing?
- How can a unitary risk management be ensured, given that each public authority / institution has its own autonomy in identifying and managing risks, and there are no risk databases from which to select the ones that are specific to their own activity?
- How can one compare a central public authority with dozens of departments and specialists with a local authority in which the total staff in the administrative area (excluding social assistance and the like) is 10 to 15 persons, including the mayor, deputy mayor and commune secretary? How can we provide the expertise needed for effective risk management?

It should be noted that SGG Order no. 600/2018 does not refer to risk databases. This regulation states that all the activities that have been identified and implemented in the risk management process are rigorously documented and the synthesis of the data, information and decisions taken in this process is included in the Risk Register, which proves that there is a management process within the public entity of the risks and that it works.

Given that the Order leaves the responsibility of each public entity to manage the risk management process, it follows that each authority / institution will have a specific risk register that is difficult to compare with other authorities / institutions as regards the risks involved.

Thirdly, the system of objectives defined in SGG Order no. The 600/2018 is minimalist and bullish. Thus, the objectives are generically defined as "the positive effects the management of the public entity is trying to achieve, or the negative events / effects that management is trying to avoid". If we accept the definition of risk as a "problem where the results and / or fixed objectives are threatened" then it means that the objectives per se include risk avoidance. A broad definition of the objectives cannot lead to a risk management that fulfils the desires of efficiency, effectiveness and efficacy, because the risks themselves are identified in relation to these goals.

Fourth, all the regulations in place stipulate that the Risk Register is a "document that certifies the existence of a risk management system within the public entity and that it works". We believe that the approach is a limited vision of the management concept in general. Thus, the presence of a document such as the risk register is neither sufficient nor essential to establish the existence of a risk management system and, in any case, to establish its effective implementation.

Fifthly, the provision that a Risk Register is established at the level of an entity by centralizing the compartment-level risk registers allows for the activity-specific registers within the entities carrying out non-reimbursable financing activities (e.g. the Ministry of European Funds) of non-refundable financing to be integrated into the centralized register of the entity concerned. Also, in the case of such entities, the complexity of the Risk Register may be several times higher than in the case of entities with line activity (i.e. the Ministry for Romanians Abroad), creating the false view that the former have a less efficient management activity.

Sixthly, on the basis of the previous assessment, it must be pointed out that an essential issue the current legislation does not solve is the provision of a unitary framework correlated with the diversity of activities within the public administration. Thus, the SGG Order No. 600/2018 refers to the annual reporting on the conduct of the risk management process "which mainly comprises the total number of risks managed at department level, the number of risks treated and solved by the end of the year, the stage of implementation of the control measures and any revisions to the risk assessment, respecting the risk tolerance limit approved by the public entity management".

However, only if we relate to the total number of risks managed at the department level, it is obvious that there will be less in the case of a line ministry in comparison to a synthesis ministry, respectively between the latter and another synthesis ministry that also manages European funds. Moreover, a legitimate question arises if, in some contexts, some risk managers will try to declare / identify fewer risks than really exist in order to have a more favourable position compared to other entities in the administration.

Seventh, regarding the self-assessment questionnaire on the stage of internal managerial control standards implementation, questionnaire included in the Order no. 600/2018, it should be emphasized that it contains only 3 questions, which we consider to be irrelevant to the context. Thus, decision-makers should respond (1) if the risks related to the objectives and / or activities have been identified and evaluated, (2) if significant risk control measures have been established and monitored, respectively (3) if an analysis of the identified and managed risk exists, materialized through an annual reporting on the risk management process. This so-called self-evaluation thus turns into a formality and does not bring decision makers any qualitative element to improve within their activity.

Eighth, an important element that differentiates the new regulation from the old one is given by the degree of autonomy the entities have for internal managerial control implementation. Thus, the MFP Order no. 946/2005 leaved the head of the public entity to establish a structure with responsibilities in the field of internal managerial control "depending on the volume and complexity of the activities of each public entity"; Order no. 400/2015 and Order no. 600/2018 establish the structures to be created at the level of each public entity, respectively confer the quality of coordinator of the internal / managerial control application process to the General Secretariat of the Government through the

Directorate for Internal Managerial Control and Inter-institutional Relations (DCIMRI). The later one "develops and implements the policy in the field of internal managerial control system, coordinates and supervises the implementation and development of the internal managerial control systems within the public entities through methodological checking and guidance". This creates the premises for a unitary approach to internal / managerial control and, implicitly, to risk management.

4. Uniform risk management methodology for non-reimbursable financing

The author has previously proposed the creation of a unique risk register (Nicolae, 2015) for all non-reimbursable grants, respectively the implementation of a risk management system covering all national and European funds (Badea & Nicolae, 2015b). This would materialize in the development and implementation of a unitary risk management methodology to be used by all public authorities and institutions responsible for the management of non-reimbursable financing.

At present, they use risk management methodologies / procedures developed from the provisions of SGG orders no. 400/2015 and 600/2018. As these are public entities, the application of the mentioned regulations is mandatory, which makes the improvement of the current methodologies to be achieved taking into account those provisions.

Improvement of risk management methodologies used by the public authorities and institutions involved in the management of non-reimbursable financing in Romania should start from the creation of an exhaustive and systematic risk inventory covering all non-reimbursable funds. Systematization should rely on the phases of the Project Cycle Management defined by the European Commission. With regard to monitoring, the risks should be monitored on a permanent basis and keep tracking of the periodicity he situations that generate them occur, respectively of the real financial and operational impact, such that a database to be developed and used to rank risks and propose the necessary response strategies. At this time, the risk management process does not have historical data, which can be statistically processed and offer solutions for decision-makers to improve the facts.

It should also be emphasized that there is a need for a single risk management methodology for all non-reimbursable grants in Romania, as the logic of non-reimbursable funding is the same for all funding programs. This logic could be extended even at Community level, at least for the European structural and investment funds.

The unitary risk management methodology must allow for the computerization of the risk management process. This involves the breakdown of the risk management process into three essential levels:

- level of conception - the level where a small group of experts, persons with knowledge and skills in the field of risk management and non-reimbursable financing can permanently identify and update an exhaustive risk database (including causes, effects, appearance), define and update the structure of the database, define its mode and rules of use. It is essential that the database be available online, accessible on access levels by representatives of all authorities and public institutions involved in the management of non-reimbursable funds;

- level of operation - the level where the experts in the public authorities and institutions responsible for managing non-reimbursable grants record in a web interface the emergence of the causes that generate the risks (e.g. in the case of a procurement risk, the date of situation occurrence, procedure, project information - geographic location, financing program, etc., the value that the beneficiary "risks" to lose by non-compliance of some rules); the aggregation of the information they bring will provide useful input to decision-makers;

- decision level - the level where the heads of authorities and public institutions responsible for managing the funds, but also other top level entities (e.g. European Commission, Prime Minister, etc.) or with monitoring and control responsibilities (e.g. Audit Authority, Court of Accounts, etc.) have access to automated reports and recommendations to improve the funds accession management processes. Based on the latter, informed decisions can be made to modify the regulations and procedures in force.

A graphical representation of the flows of the proposed database is shown in figure no. 3, below.

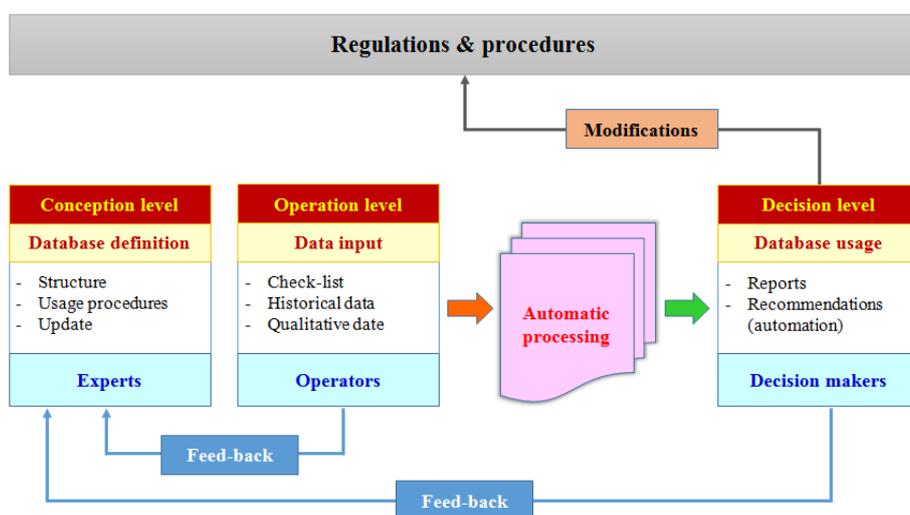


Figure no. 4 - Proposal for a general overview of the unitary risk database

Source: own research

The steps of the proposed methodology are the following:

- STEP 1 - Establish / update the objectives and activities related to the management of non-reimbursable financing

This step is essential for risk management because, as we have previously mentioned, the risks are indissolubly linked to objectives and activities. Identifying risks without being

linked to objectives and activities is irrelevant to the process of managing non-reimbursable funding, because it cannot quantify the impact that risk materialization may have.

The list of the objectives and activities related to the management of the non - reimbursable financing is done taking into account the European regulations and the national regulations in force. An important element is the correct formulation of the objectives in terms of SMART (S - specific, M - measurable, A - (achievable), R - realistic and T - (Time-related) (www.wikipedia.com, 2018).

- STEP 2 - Creating / developing / updating the risk database specific to the non-reimbursable funds accession management process

The risk database must be available, within an online application, to all the public authorities and institutions responsible for the management of non-reimbursable funding, and even to the private ones that receive from the responsible authorities the status of intermediate body for a financing program. The database must be unique for all non-reimbursable financing in Romania, which implies that any public or private entity managing a financing program accesses within the database only the specific risks that are appropriate for a specific program.

The database will be organized according to the Project Cycle Management (PCM) phases and will have the structure presented in Figure no. 4. The database shall be permanently updated with risks, causes and effects, by the risk management experts in the working group, including on the basis of proposals made by the employees of the authorities and institutions managing the non-reimbursable funding, by the control and audit institutions, respectively with the contribution of applicants and beneficiaries of funding.

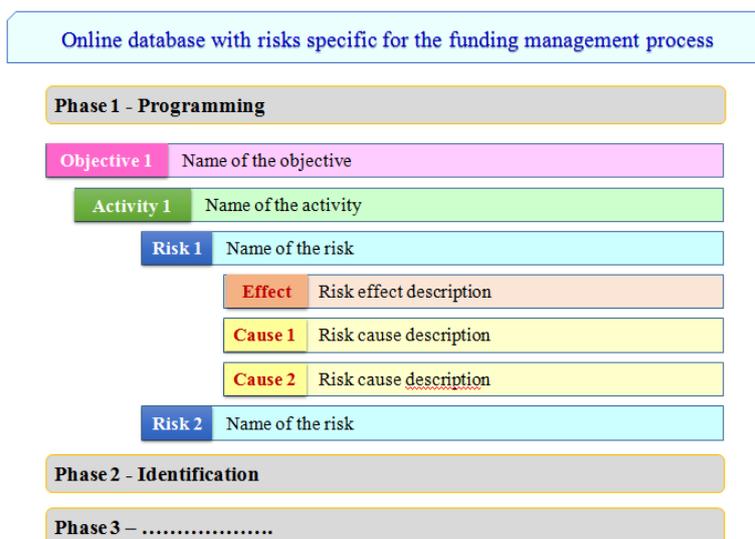


Figure no. 5 - Proposal for online database of risks specific to the non-reimbursable funds management process

Source: own research

- STEP 3 - Filling in information about risks by the operators

Database operators, i.e. executives from public and private entities that manage grant programs, permanently or periodically complete historical risk-related information. In particular, they supplement information on the circumstances that determine the risks (causes) in order to gather the historical data necessary to determine the likelihood of a risk occurring, respectively the quantifiable effects of the risks.

The structure of the information entered by operators must be at least the following:

- checking the situation from the list of possible situations (checklist);
- date of occurrence;
- the financing program;
- geographical location (if applicable);
- the public / private entity at level of or due to which the situation occurred;
- quantifiable effects (if possible);
- observations (detailed notes or descriptions of the situation).

Risk reporting system

Risk cause definition

Risk cause definition

Occurrence date	Financing program	Location	Organization	Quantifiable effects	Observation
.....		

Figure no. 6 - Proposal for a scheme for reporting of risk generating situations

Source: own research

For a better understanding of the mechanism, let's take the following example: In a project implementation phase, a Project Officer within authority X checks the procurement dossiers submitted by the grant recipients attached to the reimbursement requests. Out of the 100 verified projects, the project officer identified problems with the procurement procedures for 9 projects, of which 3 of the projects have problems for two or more procedures. In total, the project officer identifies 18 procurement problems, of which, according to the regulations in force, for 3 it is necessary to cancel the procurement procedures.

The Project Officer examines each procurement problem and distributes it on the following causes (risk-generating situations) for the risk of "cancelling procurement procedures":

- awarding the contract directly, although a procurement procedure was mandatory (2 cases);

- using the non-competitive negotiation procedure, although the legal conditions are not met (1 case).

For the "use of the non-competitive negotiated procedure, although the legal conditions are not met", the project officer completes the following information in the database:

- situation check;
- date of the situation: 01.07.2019;
- financing program: ROP 2014-2020;
- geographical location (if applicable): South Muntenia region;
- the public / private entity at level of or due to which the situation occurred: XYZ S.R.L.;
- effects (description): cancellation of the procedure;
- quantifiable effects (if possible): 73,000 Euro (purchase value to be cancelled);
- observations (detailed notes or descriptions of the situation): S.C. XYZ S.R.L. had 3 months to complete the purchase, but it did in the last two days of this period, justifying that the emergency led to the use of direct negotiation with the supplier.

The Project Officer will also enter in the database the information on the total number of verified procedures, including their total value. In this way, the statistical data required to use quantitative calculation methods can be obtained. For example, in the end the project officer will have been introduced the information about:

- total number of verified procedures: 156;
- the total value of the procedures: 2,000,000 Euros;
- number of procedures with problems: 18;
- the total amounts that are not-reimbursed as a result of procedural problems: € 500,000.

Statistically, simple calculations can be made on the share of problem procurement procedures ($18/156 = 11.53\%$) and financial exposure to risk ($500.000 / 2.000.000 = 25\%$). Such information, aggregated at the level of development region, financing program, etc. can provide decision makers with useful information about the risk of "cancelling procurement procedures". For example, the analysis of the comments section may lead to the conclusion that the beneficiaries of a certain type (e.g. companies) do not understand how the procurement procedure X is used, which may be translated into a risk prevention measure, in the sense of organizing information sessions or training courses for them.

Such reasoning, although it may seem simple, is an adequate and effective decision support for regulatory or procedural changes.

- STEP 4 - Database risk ranking

The risk hierarchy is automated by the computer system through calculating risk exposure based on the mathematical formulas set by the experts in the working group. In fact, the IT system aggregates all the information input by all operators in public and private entities that manage non-reimbursable funding.

For example, in the case of the risk presented above "cancellation of procurement procedures" in 2019, the system aggregated the following information:

- total procedures: 10,000;
- total value of the procedures: 100,000,000 Euro;
- total procedures in which case X occurred: 500;

- total procedures in which case occurred Y: 100;
- the financial effects of the occurrence of the risk due to cause X: EUR 10,000,000;
- the financial impact of the risk exposure due to cause Y: € 5,000,000

By applying simple mathematical calculations, the computer system returns the following risk information:

- probability of risk occurrence (causes / total procedures): 6%;
- exposure to Risk (Effects of Causes / Total Value): 15%.

Assuming that the authorities responsible for the program X also have information about 2018, where the probability of the risk was 3% and the exposure of only 7,5%, for 2020, in the absence of holding measures under the control of the causes of risk, the following scenarios can be anticipated:

- the optimistic scenario: probability and exposure to risk remain as in 2019;
- the pessimistic scenario: the probability and exposure to risk have a tendency to double compared to the previous year (same in 2019 as compared to 2018);
- the average scenario: probability and exposure to risk have a moderate growth trend.

Depending on the interest of the public authorities and institutions responsible for the management of non-reimbursable financing, measures may or may not be taken to control the causes that manage that risk. For example, if 2020 was the last year in which the funds available under the funding program can be used and an average scenario is projected, given that the total value of the procedures will be as much as EUR 100,000,000, it can be estimated that about 22.5 million euros will be unspent funds.

The IT system will also perform a risk hierarchy according to the criteria set by the risk management experts in the working group. For example, a grid might be set as follows:

- critical risks - risks that may result in financial losses equal to or greater than 10% of the value of the funding program or subdivision of the funding program (e.g. the risk of automatic decommitment of funds);
- very high risks - the risks that may result in financial losses of between 5% and 10% of the value of the funding program or subdivision of the funding program (e.g. the risk of financial corrections);
- high risks - the risks that may result in financial losses of between 1% and 5% of the value of the funding program or of a sub-division of the financing program (e.g. the risk of financial corrections) or the non-fulfilment of some funding program indicators;
- medium risks - the risks that may result in cancellation of financing contracts and / or the suspension of projects with an impact on the fulfilment of the indicators of the financing program;
- low risks - the risks whose manifestation may result in partial withdrawal of funding from certain projects, with the obligation for the beneficiaries to meet project objectives and indicators.

Depending on the level of risk, it may be prioritized by certain categories of officials and / or institutions. For example, critical risks and very high risks should be tracked weekly in government sessions, while high risks should be pursued by the minister under the authority managing the funding program.

On the basis of the hierarchy, an action plan can be developed to include the most appropriate risk response strategies and, as far as possible, actions to prevent risks.

Conclusions

The provisions of SGG Order no. 600/2018 on the approval of the internal managerial control code for public entities, as well as the previous regulations, refers to the implementation of a unitary framework for internal managerial control, to be built with the same "instrument" in all public entities.

According to this regulation, the internal managerial control focuses on the identification, prioritization and management of risks, respectively on the organization in order to achieve the objectives of the public sector organizations.

From the perspective of the implementation of a unitary risk management methodology by the authorities and public institutions responsible for the management of non-reimbursable funding, the SGG Order no. 600/2018 establishes a favourable general framework.

The proposed methodology would apply to all non-reimbursable grants in Romania, both nationally and from international donors (the European Union, the Governments of Norway, Iceland and Liechtenstein, etc.), as the logic of non-reimbursable funding is the same for all funding programs.

The proposed methodology aims at computerizing the risk management process, relying on a unique risk register and rigorous organization of the process of collecting and using risk information, its causes and effects.

Bibliography

- [1] Badea, D., Nicolae, C., (2015a), "Specific procurement procedures – sources of risk in the management of Structural Funds in Romania", proceedings of the International Finance and Banking Conference FI BA 2015 (XIIIth Edition)
- [2] Badea, D., Nicolae, C., (2015b), "Insurance of risks specific to non-reimbursable funds management system in Romania", Financial Studies, Year XIX – New series – Issue 2A(68A)/2015
- [3] Crăciun, L., Băloi, I. C., (2014), "Dysfunctions in the application of the managerial control systems in Romanian Public Institutions: The reporting improprieties, the information and the communication standards", Annals of the University of Oradea. Fascicle of Economics, 2014, vol. 1(1)
- [4] Nicolae, C., (2015), "Qualitative Analysis of the Risks Identified in the Management of the Non-Reimbursable Funds in Romania in 2007-2013", București, proceedings of the 11th Administration and Public Management International Conference – Strategic Management for Local Communities

- [5] Nicolae, C., Badea, D., (2017), "The importance of a project level risk management methodology for EU Structural and Investment Funds accession in Romania", de Gruyter, Proceedings of the International Conference on Business Excellence
- [6] Nicolae, C., (2018), " The applicability of the international financial methodologies to the risk management system used in the management of non-grantable funds in Romania", The Romanian Journal of Statistics
- [7] Popescu, M., Popescu, M., Gâlcă, D., (2017), "The Internal Control Management Development Strategy in Romania", Conference Proceedings "Globalization - economic, social and moral implications"
- [8] Stegăroiu, I., Pleșa, I. T., Panagoreț, O., Mubben, Ș., (2015), "Issues regarding the management of internal control/managerial and combating some negative effects in Romanian public institutions' activity", International Conference "Risk in Contemporary Economy", XVIIth Edition, 2015, Galati, Romania, "Dunarea de Jos" University of Galati – Faculty of Economics and Business Administration
- [9] Teodorescu, C. D., (2015), "The internal control models in Romania", Annals from University Constantin Brancusi from Targu-Jiu, Gorj, Romania, Economic Series
- [10] Project Cycle Management Guidelines (2004), elaborated by European Commission, available at <https://ec.europa.eu/europeaid/>
- [11] Risk Management in the Commission – Implementation Guide (2010), elaborated by European Commission, available at www.asktheeu.org
- [12] Methodology for Implementing the Internal Control Standard "Risk Management", (2007), elaborated by Ministry of Public Finance - Central Harmonization Unit of Financial Management and Control Systems, available at www.mfinante.gov.ro
- [13] Risk management methodology (2017), elaborated by the Secretariat General of the Government of Romania within the project "Strengthen the implementation of managerial internal control standards at central and local level - code SIPOCA 34"
- [14] <https://cohesiondata.ec.europa.eu> – the official website of the European Commission for the European Structural and Investment Funds
- [15] www.fonduri-ue.ro – the official website of the Structural and Cohesion Funds in Romania
- [16] www.sgg.gov.ro – the official website of Secretariat General of the Government of Romania
- [17] <https://wikipedia.org> – the Wikipedia encyclopaedia website
- [18] Government Ordinance no. 119/1999 on internal managerial control and preventive financial control
- [19] Law no. 544/2001 on freedom information access
- [20] Order of the Ministry of Public Finance no. 946/2005 for the approval of the code of internal managerial control

- [21] Order of the General Secretariat of the Government no. 400/2015 for the approval of the code of internal managerial control of public entities
- [22] Order of the General Secretariat of the Government no. 600/2018 for the approval of the code of internal managerial control of public entities
- [23] Report on internal managerial control for 2015 (2016), issued by the General Secretary of the Government of Romania, available at www.sgg.gov.ro
- [24] Report on internal managerial control for 2016 (2017), issued by the General Secretary of the Government of Romania, available at www.sgg.gov.ro