Project Management and Risks Administration

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Abstract

Romania’s ability to attract financing from the European Union budget has proven very difficult in the last years. By comparing us, starting from this criterion, with the neighborly countries (Hungary, Czech Republic, Poland), it is clear we have serious deficiencies regarding not only the approaches and representations, but also the ability to define and rollback projects in accordance with the applicable standards. In the series of frequent deficiencies is listed also what we call risk management. In order to obtain a complete success, project management presupposes, therefore, inclusively the adequate administration of the risk.

In this matter, the three fundamental purposes could be: (i) identifying the probable events which could have an unwanted impact over the results; (ii) the careful and active monitoring of the identified risks; (iii) adopting certain prevention/correction measures and enforcing the internal/managerial control bound to offer full guarantees regarding the accomplishment of the pre-established objects. In case of a Project Management Unit (short for PMU) that benefits from European funds, the realization of the objective of avoiding the application of certain financial corrections is directly proportional with the efficacy of the risk management.

Keywords: internal audit, internal/managerial control, level of impact, prevention/correction decision, risk probability, total risk score.

JEL classification: M10.

Introduction

From a theoretical point of view, project management is a managerial system which continued and continues to know an ample propagation within the organizations, without taking into consideration their domain of activity, their size or resources that they process. The application on a much ample scale, in the European Union, of this management system is based on the more pregnant accent that the managers and other categories of employees place over the creativity and innovation within the organizations. In a society based on knowledge and information, this approach becomes more significant. Between the factors that supply the extension of applying the management through projects are:

- The principle of free circulation of resources and the necessity of creating a significant degree of cohesion;
- The more accentuated diversification of the request and the increase of work/products/services requisitions which are highly personalized, new and of great complexity;

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• The rapid rhythm of moral depreciation of knowledge and the increase of preparation/specialization level of the employees;
• The development without precedent of telecommunications, informatics and, equally, of complexity sciences, quantum physics and genetics.

There are numerous definitions of project management, being considered a “managerial concept, which can sustain in a distinct manner from a methodic (procedural organization), structural (structural organization) and of human resources management a complex activity in a dynamic environment.” (Mocanu, M & Schuster, C., 2001)

Another definition presents the project management as being “a management system with limited action duration, for a couple of years, conceived in order to solve certain complex problems, but precisely defined, with a strong innovative character, which implies the contribution of various specialists range, from different organizing subdivisions, temporary integrated in an autonomous organizing network.” (Nicolescu, O. – coordinator, 2000)

Officially, the European Commission defines the project as being “…a group of activities that must be realized in a logical sequence, in order to achieve a set of pre-established objectives, formulated by the client…”, meanwhile the Government of Romania provides that the project “is a well defined purpose which is provided in order to be realized in a determined period and within the limits of the allocated resources and which has a set of rules, objectives and activities attached to it.” (3)

Through its nature, the project represents something special, out of common, having certain uniqueness and thus, it was defined as: “an ensemble of inter-conditioned activities realized in an organized manner, with well defined starting and beginning moments, for obtaining specific results which satisfy the derived necessities from the strategic plan of an organization” (Ciobanu, R.M., 2002).

In most of the cases, the project represents a major challenge, an attempt of bringing changes in the organization, whether it presupposes the introduction of a new technology, of a more performing decisional system or other significant types of approaches and perfection. From a managerial point of view, “the project represents a temporary organizing structure which has as purpose the realization of well defined objectives, in a time calendar and considering unprecedented approaches, with a strong innovational character (Zecheru, V. & Nastase, M., 2005).

The project management can bring, within the entity from which it belongs, new elements of organizational structure, in parallel with those existing, having temporary character. Usually, the objectives of the project endorse three dimensions:
• time horizon - determined by the definition of certain stages, phases, terms calendar;
• datasheet - referring to the technical parameters regarding the work/product/service realization which represents the object of the project;
• well defined performance - economy (minimizing the cost with the maintenance of the quality of the available resources) and the efficiency (maximizing the effect in report with the effort).

In general lines, the three dimensions define the rigors and the conditioning of the pre-determined purpose, as it is derived in the objectives. Thus, the project is defined as being “... a unique, new and temporary intercession, carried out to realize a new development objective” (Turner, J.R., Simister, S.J., 2004)

Within the project management, the role of the decision-maker factor is crucial. The knowledge, abilities and skills of the top manager will determine, in an important part, the success or failure of the whole process. Therefore, the proper personal qualities (skills) of such manager must counterbalance the main responsibilities which he assumes.

The position of a project manager is, certainly, particularly attractive and also a challenge. Concomitantly, the occupation of this type of function implies a particular pressure on the holder, considering the rapid rhythm of decision adoption, the accentuated stress conditions, etc. A strong pressure comes also from the team members, the manager being very solicited for keeping control over the whole process. In consequence, when the selection of the project manager is decided, one must consider a series of aspects, as following: (i) life philosophy; (ii) credibility; (iii) leadership; (iv) technique and financial expertise; (v) communication / negotiation capacity etc.

1. Risks in PMU

The multitude of aspects imposing to be solved within PMU is equaled only by their complexity and variety. In this series is enlisted also the risk. Project management presupposes also the good risk management (the risk is defined mostly as being a future event which can affect the achievement of the purposes). In this way, in Romania were introduced specific regulations, especially for edifying a strong normative frame through which it can offer to the financers the guarantees regarding the good administration of the funds. In these regulations, are mentioned:

- Decision of the Public finances Minister no. 946/2005 regarding the approval of the Internal / Managerial control encompassing the standards for internal /managerial control at the public entities and for the development of the managerial control system, republished; (8)
- Law no. 672/2002 regarding the internal public audit. (9)

In the center of this problematic is the risk term, in his economic-social and organizational acceptation. As known, the definition of the risk varies from a science to another. In the big dictionaries we find vowed definitions, like: “...danger, inconvenient more or less probable, at which we are exposed”, but also “...exposure to danger, loss or failure” (Le Petit Larousse) or “the chance to suffer damage (something bad) or loss” (Webster’s Dictionary).

In a pragmatic way, in order to solve with efficacy the specific aspects of
Risk management must be mentioned, previously, that it has a triple purpose. First of all, risk management presupposes the identification of probable events that can have an unwanted effect over the results. When the archiving activity is not organized correspondently, for example, there is a risk that, in case of an audit, the solicited documentation cannot be offered. In this situation, the acknowledgement of a deficiency cannot be fought with arguments, the risk of applying a financial penalty being effective. In such case, the project manager is not trying to identify opportunities, but only eventual coercions which can determine the failure of certain objectives.

Secondly, a careful and active monitoring of the identified risks is necessary. If the situation asks for it, the list of risks can be operatively modified, whether by introducing new risk, whether by taking out some risks which do not represent a threat regarding the accomplishment of the objectives. Therefore, when needed, the initial enunciation can support eventual corrections or eventual reformulations.

Finally, the third specific purpose of the risk management refers exclusively to the prevention/correction decision. Such decision is imposed to be adopted on the strength of complete, correct and well verified information, and usually targets the enforcement of the internal/managerial control dispositive of PMU.

The evaluation of the risk presupposes the identification of its probability and the impact level. The probability refers at the chances that, from various reasons, the risk activates. The evaluation is determined by taking into consideration numerous probable consequences which the risk can trigger. In this purpose not only the available statistics, but also brainstorming can be used. The probability is directly proportional with the number of events which can occur at the risk activation, while the impact refers to the consequences/effects which the risk might have when triggered. Thus, in the measure in which the negative consequences are bigger, bigger is the impact of the respective risk. The probability ant the impact level can be expressed on a value scale with five stages, as following:

- 3.50 – 4.00 points = critical (major impact/very high probability);
- 2.50 – 3.50 points = serious (considerable impact / high probability);
- 2.00 – 2.50 points = moderated (moderated impact / medium probability);
- 1.50 – 2.00 points = minor (minor impact / small probability);
- 1.00 – 1.50 points = negligible (negligible impact / very small probability)

The total score of the risk is obtained using the formula:

$$ T = \sum_{i=1}^{n} P_i \times N_i $$

where: $T$ – total risk score; $P(i)$ – risk probability for each criterion, on a scale from 1 to 5; $N(i)$ – impact level for each used criterion.

In the risks identification we can distinguish two categories: external and internal. The external risks are those events which can affect from outside the PMU activity and which cannot be controlled (for example, legislation modification). In
case of this risk category, the measures which can be taken are those which can ensure a diminution of possible side effects. The internal risks are the result of some events from the interior of PMU, thus being controllable. To these, prevention measures are applicable, by which a big part means the enforcement of the internal/managerial control dispositive.

The risk associated to project management can be divided on numerous categories, as following: (i) organization risks: procedures manual insufficiently implemented, lack of precise responsibilities, insufficient personnel, deficient human resources organization, insufficient and outdated documentation; (ii) operational risks: non registration in the accountancy sheets, non-correspondent archive of the justifying documents, lack of control over the high risk operations; (iii) financial risks: non-secured payments, non-detection of financial risk operations; (iv) legislation risks: generated by the legislation, structural and managerial changes.

The project manager will evaluate permanently the preoccupation of the PMU members, each of the activity of which he is responsible, regarding the identification of risks, prevention of their appearance and correction eventual effects. In this purpose, the project manager accomplishes the following activities: (i) identifies the risk by questioning, checking lists and discussions with PMU members; (ii) analyzes the identified risks; (ii) keeps the record of the identified risks; (iv) prepares the action plan for decreasing or eliminating the risks.

For each of the identified and quantified risks, prevention/correction actions are imposed encompassed in an action plan. In essence, the action plan will have the following elements: (i) identified risks, their description and the areas which can be affected; (ii) individual responsibilities; (iii) response instruments and techniques to the identified risks – avoidance, transfer, diminution and/or acceptation; (iv) actions; (v) realization terms; (vi) results; (vii) following of adopted measures.

It is recommended that the risks monitoring and control to be cyclic (eventually, twice per year), implying, as general rule, the following important aspects: (i) tracking the action of identified risks; (ii) identification of new risks; (iii) assuring the accomplishment of the action plan for eliminating/reducing the action of identified risks, etc.

An inadequate management of risks triggers inevitably the apparition of irregularities / non-compliance that can affect, in the long run, the accomplishment of objectives. By irregularity/non-compliance, we understand, any diversion from the law, regularity and conformity in report with the national and/or community legal provisions, and also the provisions of the contracts or with other legal engagements, so that, such actions can prejudice the administrated budgets, usually by effectuating some expenses / wrong payments.

On the other side, fraud represents any intended action or omission regarding the acquiring, use or management of funds coming from administrated budgets, action incriminated by the specific legislation concerning the prevention, discovery and sanction of corruption, with the ulterior amendments and completions, or by diverse applicable European regulations.
In case of the identification of an irregularity suspicion, occurred during the project financed by European funds, the beneficiary has the obligation to draft a Notification regarding the irregularity suspicion / Alert Form, document which he will transmit to the intermediary body. For this, the standard report form is filled, and are given details regarding: (i) the project in cause; (ii) the provisions which were broken, the nature and the expenses sum; (iii) total sum and its distribution between the different financing sources; (iv) the period in which or the moment when the irregularity was committed; (v) the practices used for committing irregularities; (vi) the way in which the irregularity was discovered; (vii) the date and source of the first information which triggered the suspicion that an irregularity is made, the date when the official report regarding the irregularity was concluded; (ix) the identity of any physical or judicial involved persons.

2. Financial Corrections

We present, hereinafter, a short application regarding the financial corrections which a European funds beneficiary supports when he does not give the proper attention to the risk management. Thus, the most severe consequence at which PMU exposes is the one regarding the application of financial corrections. Thus, in accordance with the COCOF Guide 07/0037/03-RO (Committee for Coordination of Structural and Cohesion Funds), can be:

1. For the failure to comply with the publicity and transparency procedures, respectively the awarding of an contract without respecting the requests regarding the publicity, as regulated by the national and community legislation concerning the public procurement is applied a correction of 100% from the value of the contract; in case of awarding the contract without respecting the requests concerning the public procurement, for which existed publicity which permitted to the economic operators found on the territory of another state to have access at the procurement procedure (was published, but no included all the necessary data) is applied a correction of 25% from the value of the contract;

2. For awarding the extensions of contracts for works/services or supplementary goods attributed without applying a competitive procedure (concluded by negotiation without participation notification), without respecting the conditions provided by the national and community legislation, inclusively in the absence of an extreme emergency, determined by the apparition of unpredictable events, or the absence of unpredicted circumstances, is applied a correction of 100% from the total value of the supplementary contracts (addendum); correction which can be reduced at 25% from the cumulative value of the supplementary contracts (addendum) if their total value does not exceed the percentage from the initial contract value, established by the national and community legislation.
concerning the public procurement;

3. For the procurement of certain works or supplementary / additional services which, in virtue of certain unpredictable circumstances have become necessary, by exceeding the percentage from the initial value contract, established as limit through the national and community legislation concerning the public procurement, is applied a correction of 100% from the cumulative value which exceeds the percentage of the initial value contract, respectively 100% from the cumulative value of supplementary contracts (addendum); correction which can be decreased at 25% from the cumulative value of the supplementary contracts (addendum), in case in which their total value does not exceed the percentage from the initial contract value, established by the national and community legislation concerning the public procurement;

4. For not declaring all qualification and selection criterion and of the evaluation factors in the documentation of awarding or in the participation notification, for which is applied a correction of 5% to 25% from the present contract, depending on gravity;

5. For applying attribution dissent criterion regarding the legal provisions (for example: using an evaluation factor in inconsistency with the evaluation factors established by the contractual authority in the participation notification and in the attribution documentation, applying the qualification and selection criterion which are disproportional in report with nature and complexity of the public procurement complexity, the incorrect application of the evaluation factors by the contractual authority) is applied a correction of 25% from the value of the present contract, which can be decreased, depending on gravity, to 5%.

6. For establishing, in the attribution documentation or in the participation notification, qualification and selection criterion, or of several illegal evaluation factors (for example: the cases in which certain potential bidders were not able to participate at a attribution procedure because of certain restrictive criterion, established in the participation notification or in the attribution documentation) is applied a correction of 25% from the value of the present contract;

7. For the insufficient or discriminating definition of the object of contract which does not permit to the bidders to identify the object of the contract or the contractual authorities to attribute the contract, is applied a correction of 25% from the value of the present contract;

8. For negotiating during the attribution procedure, respectively the contractual authority has negotiated with bidders during the attribution procedure, excepting the solicitations which have as purpose only the clarification or completion of the content of the offers or stipulation of the obligations of the contractual authority, is applied a correction of
25% from the value of the present contract;

9. For reducing the object of the contract without the proportional diminution of the value of contract, is applied a correction equal to the sum corresponding to the reduction of the object of contract at which 25% from the final value of the present contract is added.

10. For the inadequate applying of certain auxiliary elements of attribution procedures (for example, not publishing the attribution notification of the contract, the non-justified reduction of the period covered between the date of the transmission of the participation notification to be published and the limit date of submitting the offers, not respecting the terms regarding the publication of the participation notification, not publishing the erratum type notification if the information from the participation notification were modified, not respecting the legal terms regarding the response to the clarification solicited by the potential bidders, the refusal by the contractual authority of the solicitation of the potential bidders of extension of the term of offer opening in the situation in which there were important modifications in the attribution documentation etc.) is applied a correction of 2%, 5% or 10% from the contract value, depending on the gravity of the irregularity and its repetitive character.

Furthermore, beside the corrections presented above, within the verifications made by the competent authorities, for smaller deviations, can be applied financial corrections in the following cases:

a. The ill-founded shortening of the submission period of the offers in case of procurement procedure, the beneficiary not respecting the legal reduction conditions of the period, or not considering the complexity of the contract that follows to be attributed, for which is applied a financial correction of 10% of the value of the contract;

b. The incompleteness of the qualification criterion by the bidder declared winner of the public procurement procedure, for which there were applied financial corrections of 25% from the value of the contract;

c. The ill-founded exclusion (systematic in some cases) of the offers with a lower price, without that the contractual authority to detain objective reasons for exclusion or to solicit supplementary clarification from the excluded bidders; in these cases, the applied correction would be of 10% of the value of the contract;

d. The ill-founded rejection of the offers before their evaluation (for example, following the omission of a participation guarantee issued in another currency that the national one, in the conditions in which its value covers the solicited value), case in which is applied a correction of 5% of the value of the contract;

e. The amendment of the participation notification made by publishing a clarification and not by publishing an erratum; in these cases, the applied correction would be of 10% of the value of the contract;
f. The clear non-stipulation, in the procedure report, of the motives which have triggered the rejection of certain offers, for which was applied a correction encompassed between 2% and 10% depending on the gravity of the deviation;

g. The identification of a interest conflict, as described in the applicable legislation, for which is applied a correction of 100% of the value of the contract, and the competent authorities are intimated – for the anti-fraud fight. (Zecheru, V. & Badica, C., 2013)

Conclusions

The risk is a stochastic event which can impact the objects and can determine severe prejudices in all plans. In case of a PMU engaged in an action financed by European funds, the realization of its objective regarding the avoidance of applying financial corrections is directly proportional with the efficiency of risk management.

For the diminution of the risks, and in general, for reducing the incertitude, the project manager will take action in the direction of identifying the procedural activities in each of the domains where major risks were identified. Therefore, he will take action for the drawing up of operational procedures and for the enforcement of the internal/managerial control dispositive. The efficient prosecution by each department chief, personally, of his managerial control attributions, represents for the financer a reasonable guarantee regarding the realization, by PMU, of his objectives.

References

7. *** Government Decision No. 8/1997 regarding the stimulation of the research-development and innovation, approved by Law no. 95/1998;
8. Internal/Managerial control Code approved by Decision of the Public finances Minister no. 946/2003;
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