

INTERNAL CONTROL MANAGEMENT - KEY FACTOR IN OBJECTIVES

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Abstract

Internal Control Management is a management function that allows management to exercise based on standardized internal control responsibilities and who has influence on all other management functions. By exercising this function ensures the entity's management on the degree of achieving the objectives set.

Internal control management system is applicable to all public entities though , the approach varies from one entity to another , depending on organizational culture , nature activities , risk profile , size and complexity of the system of regulation and control environment. The complexity of processes and methodologies used to implement this system depends heavily on the quality of management and its understanding of the role and purpose of the process.

In implementing the internal control system, the organizational environment is the key factor that influences overwhelmingly each stage of the implementation process. This factor is, however, dependent on the attitudes and awareness of persons responsible for corporate governance on the control function.

Keywords: internal control management, objectives, means, system information, tools, organization, procedures.

JEL Classification: M40, M41.

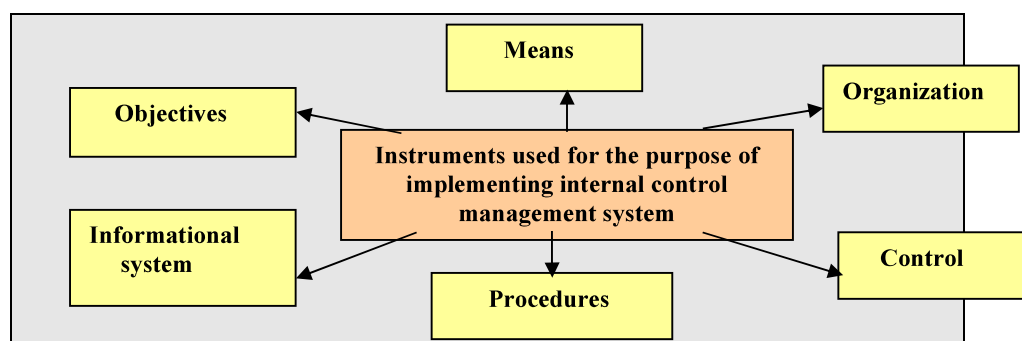
The need to implement internal control management system

Implementation of internal control management within public organizations following the recommendation of the European Commission intervened in the accession process of strengthening managerial accountability and increase administrative capacity. Strengthening managerial accountability implies that those responsible for corporate governance in a public organization have complete freedom to decide on the organization and development of their internal control system management, to ensure the integrity of the heritage and the efficient and effective resources. For the implementation of the internal control system exists managerial level public organizations adopted a primary and a secondary legislation. The primary legislation defining the concept and ensured the general and specific objectives, the organization established the process and responsibility of management with respect to the creation and implementation of internal control management system. The secondary legislation defined a reference framework for the organization and operation of internal control management.

The definition recognized by most practitioners in the field , internal control / management means *all forms of control implemented on the public entity, including internal audit , established by management in accordance with its objectives and legal regulations , to ensure the management of public funds in economic , efficient and effective . This system includes organizational structures, methods and procedures and takes into account the following objectives:*

- objectives related to the goals of the public entity and patrimonial resource protection and the safe use of economy, effectiveness and efficiency of resources. These objectives related to effectiveness and efficiency of the functioning of the public entity;
- objectives of proper accounting organization , quality of information , documents and resources to protect against fraud. These objectives related to the reliability of the information;
- achieving the objectives of ensuring compliance activities consistent with politics, rules and regulations. These objectives relating to compliance with laws and internal policies.

The definition of internal control management system is associated processes, resources, actions or orders to be issued and implemented by management in making activities. The purpose of implementing a management system of internal control is to ensure good control, both on the entity as a whole, as the realization of each activity or transaction basis. The responsibility to create and implement a system of internal control management at nivleul a public organization responsible for corporate governance lies with individuals. Those responsible must define, design, implement and monitor internal control management system. Toolkit they have in the implementation of the internal control management system is grouped as follows: objectives; means; information system; organization; procedures and control.



- **objectives** defined by management agencies, and through their implementation ensuring that the mission for which it was established the organization has been fulfilled. These are custom general objectives, contained in a policy document or strategy approved and known within the organization, which are derived specific and individual goals.

- **means** represents all the human, financial and material available , necessary to achieve the objectives

- **information system** represents all the processes, methods and tools used in the process to gather information, processing, systematization, transmission, recovery and storage of data and information.

- **organization** representing measures, methods, techniques, means and operations, create, arranged or applied by public organization leaders, respecting principles, rules and criteria in order to achieve objectives. This group is associated with internal control tools through which leadership

ensures the effectiveness and efficiency of organizational functions that implemented it.

- **procedures** are the steps, established working methods and rules applied in connection with a business. They can be classified into operational procedures related to legal procedures, the procedures related to the exercise of decision-making and judicial proceedings related liability.

- **ensure control** of comparing the results obtained with the efforts, determination of deviations and corrective measures. The control is associated with a process dissipated throughout the organization that is responsible for all staff within the competence established.

Looked at the public organization, internal control management system has an individual character, independent of other internal control management systems implemented in other organizations powder. This character is given by the organizational environment, leadership style, specific organization, personnel structure, including the preparation and financing system.

The reference framework of internal control management

The specific reference to the internal control function is associated with an overall managerial principles and rules management, compulsory applied by public organizations.

Sistem principles governing internal control managers are defined as follows:

- **organization principle**, requires that public organization to define functional structures, organization, procedures manuals, responsibilities, delegation of powers, tasks and information system. To eliminate errors and fraud within the organization must separate the following functions: according to the decision, depending on the owner of the goods and values, the function of accounting and control function;

- **the principle of self-control** involves the internal control system established to cover procedure for self-control that information held to be verified by other information supplied by individuals with whom the organization had connection and control procedures each other, respectively getting the same information at least two sources;

- **consistency principle**, which ensures the continuity of the control procedures and adapt them regularly to internal and external changes of the environment in which the organization;

- **principle of universality**, which presupposes work procedures for all significant activities undertaken in the organization;

- **principle of information** that ensures identification, circuit, numbering, sorting and archiving, as well as keeping their appropriate period prescribed by law;

- **continuity principle** involves the continuous adaptation of the internal control system based on the risks that may affect the achievement of objectives and ensuring implementation costs necessary internal control mechanisms necessary to limit risk levels ;

- **staff quality principle** involves a proper recruitment policy , setting clear objectives and defining individual motivation and providing adequate remuneration system and a program of training and instruction .

Acceptance and implementation of these principles by those responsible for the corporate governance of a public organization, improve the quality and efficiency of management decisions.

Rules specific to the management of reference of the internal control system managers are structured and defined in a code of internal control management. This document contains internal control standards group managers, by their nature and their role on the five components of the COSO model. By implementing these standards by economic organizations seeking implementation of a uniform and coherent internal control in public administration, guaranteeing on efficient and effective use of public resources and ensure the integrity of the property.

Standards of internal/managerial control¹ are **the reference** in the report that assesses / evaluates the internal control systems of each public organization, identify risk areas and determine corrective actions. Management Internal Control Standards are grouped in five key elements, namely:

¹ Management Internal Control Standards adopted Romanian complies with community practice in internal control or general principles of good practice.

Key element	Associated standards
Control Environment	Standard 1 - Ethics and integrity Standard 2 - Powers , functions, tasks Standard 3 - Competence , performance Standard 4 – Structure organization
Performance and risk management	Standard 5 - Objectives Standard 6 - Planning Standard 7 - Performance monitoring Standard 8 - Risk Management
Control activities	Standard 9 - Procedures Standard 10 - Supervision Standard 11 - Business Continuity
Information and communication	Standard 12 - Information and communication Standard 13 - Document management Standard 14 - Accounting and financial reporting
Evaluation and audit	Standard 15 - Assessment of internal control / management Standard 16 - Internal audit

- **control environment**, group them on organization, human resource management, ethics, ethics and integrity;

- **performance and risk management**, group them on setting objectives , planning and programming activities and performance;

- **control activities**, group them about procedures; business continuity, recording exceptions, segregation of duties and supervision;

- **information and communication**, group them related to creating an adequate information system and a system of reports on implementation of the management plan , budget , resource and document management ;

- **evaluation and audit**, group them on the development of evaluation capacity of the internal control system and improving its management .

Internal Control Standards managerial included within each group of key elements was done by taking into account the characteristics of the key elements, and the role and nature of each internal control standards.

According to the regulatory framework, the Romanian practice were adopted and approved to implement a number of **internal control standards 16** managerial harmonized with good practice in the field and the European system of values in public internal financial control.

Control standards shall be treated implemented, partially implemented or not implemented depending on the degree of realization of actions or activities established and attached to them. The degree of compliance of the system of internal / managerial control is determined according to the number of internal control standards declared as implemented in each functional structures of public organizations.

The impact on the financial system of internal control management accounting

The accounting system of a public organization comprising the set of principles, norms, rules, tools, processes and techniques and tools used, highlighting the necessary registration and correct the business. It consists of financial accounting and management accounting.

Financial accounting is based on the application of uniform rules and aims to present heritage circuit in its entirety and determination at year-end, the economic situation and the overall outcome of the exercise.

Management accounting is mandatory, based on costing and profitability establishment and activities is to determine the service provided analytical results and provide information necessary to support management decisions.

Internal control of accounting and financial system covers the entire process of obtaining and communicating financial information reliable and consistent legal requirements. Implementation of internal control management in the financial and accounting activity of public organizations supposed to exist:

- appropriate documentation regarding accounting principles and control records;
- suitable circuit accounting information aimed completeness of records, centralization and harmonization of accounting information and proper controls on information flow accounting;
- clear deadlines for the record-making and financial information;
- clearer accountability of persons to be registered and provides financial and accounting information;
- clear mechanisms for making the accounting records and knowledge of internal control procedures by each employee involved in the process;

- clear procedures and approval hierarchical controls, which ensure that the activities are properly carried out, deviations are identified and implemented corrective measures;
- providing the necessary personal skills and its correlation with the volume and complexity of business operations recorded.

Respect of the accounting requires the existence of manuals of accounting policies and the instructions for application and internal controls of the correct application instructions, knowledge of legislation the accounting and tax, implementation of adequate controls to identify and deal appropriately abnormalities such as and ensuring compliance with regulations. It also imposes financial and accounting compliance ensuring accuracy and completeness of records and respect the qualitative characteristics of financial information made available to users.

The organizations financial and accounting information users are interested to know the real condition of the property or statement of assets and liabilities. In this respect, a key element of internal control is the heritage integrity control, which is put in the tool control "*inventory of assets, liabilities and equity.*"

Inventory aims mainly establish the real situation of all items of assets, liabilities and equity of public organizations, as well as goods and assets held under any title, including those belonging to third parties.

Internal controls that management shall ensure that the inventory of assets, liabilities and equity it properly defined by the existence of a written decision which appoint the inventory, how to make inventory method of inventory used, management subject to inventory date of commencement and termination of operations and the presentation of results of the count.

Another tool is the internal control financial control that can be exercised as preventive financial control or financial control management.

Preventive financial control is to avoid legal non-compliance can result in errors or fraud on economic activity. This type of control has positive effects on efficient and effective use of resources, therefore establishing an order in the use of funds, increase accountability in hiring and spending, limiting the risks of waste and monitor the observance of the rules on financial management and accounting. Financial control management is carried out in order to pursue the observance of regulations on the

management of financial and material resources by verifying the legality and accuracy of the documents and records carried out technical operations, finance and accounting.

If the financial accounting system operates in a paperless environment, internal control ensures the existence of an IT strategy, identifying and managing the risks posed by computerized environment, capacity system for achieve the objectives set, recruiting staff with skills in using information technologies implemented, appropriate level of security and confidentiality of the information contained and computerized, and appropriate measures of compliance relating to taxation, and intellectual property protection of individuals.

Internal control of accounting system should ensure adequate accounting and financial management activities of public organization and ensure that the targets set are achieved in terms of efficiency and effectiveness. It also needs to ensure that the information provided is reliable and conforms to legal requirements.

Considering the fact that the reliability of financial reporting is essential and management practices not put a strong emphasis on risk management, internal control management must become a key driver of corporate governance, which ensure that the internal control system set up leads to increasing the credibility of financial reporting.

The financial information sheet must be considered as an integrated system within the organization, ensuring, at the execution order, correlation and centralization of successive information in order to manage effectively the activities and at management level presentation of synthetic indicators, global necessary to support and decision making. The internal control system must ensure compliance and management effectiveness:

- data and information, which are all measures were qualitative expressions of economic operations performed;
- informational circuits, signifying's routes data and information specific financial and accounting activity carried out;
- information flows, which means all information carried by informational circuits;
- database modules, which function information system;

- Treatment means of information means that all hardware and software that provides data processing and financial information.

Actions to improve or update the information system determines, necessarily, a number of changes in the internal control system, to ensure that it guarantees regarding security, reality and quality of information processed and delivered.

An internal control is not working properly is characterized by poor quality of information provided, existing information flow long and complicated a system inappropriate for delegating the power, purchase applications spread that lead to partial targets as well as by exploiting failure information on the different levels of responsibility.

Conclusion

Those responsible for the design and development of internal control system managers are heads of public entities that have process to implement the following measures:

- setting up structures responsible for monitoring, coordination and methodological guidance of its internal control management system;
- development and implementation of the internal control system development / management;
- developing compliance procedures and operational work;
- implementation of internal control standards;
- monitor the impact of the system of internal control managerial control over the entity's activities;
- control and evaluation of internal control managerial.

Status of implementation and development of internal control systems managerial level public entities and special situations, found in monitoring, coordination and methodological guidance, subject to an *annual Report on the internal control system / management*, which is the *official form to assume the managerial responsibility*, by the head of the public entity on the state of implementation of internal control / management.

A functional internal control of financial accounting system should ensure:

- adaptation to the specific organization, there is a model framework for internal control system management reference, to be used by all organizations as missions, organization, nature, scale and complexity of the regulatory framework applicable, mode of financing, environment internal differ from one organization to another.

- objectivity, ie internal control system must not be built according to certain interests, the organization must be subject to requirements on which targets goals

- separation of powers, that no person or organizational link of the accounting system should not have exclusive control over all important stages of a transaction, activities or operations. The aim is to limit the risk of error, irregularity or illegality in asset and liability management organization. By separating the separation of powers must ensure the following functions:

- a) *according to the decision*, which belongs to the head of the financial-accounting;

- b) *recording function*, according to which any economic-financial transaction is recorded in a document and record the appropriate accounts chronological and systematic, carried out by a specialized job accounting;

- c) *the financial function*, which consists in the payment of an obligation or a debt collection, performing a cashier.

- d) *verification function* that is exercised by individuals with responsibilities for preventive financial control and financial management, which can be preventive, simultaneously or subsequently;

- e) *retention function* that is specific to the management of persons with physical goods or other values.

Given that the internal control management system implemented in the organization comply with these rules may be characterized by rigor, consistency, functionality and sustainability.

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