

THE ROLE OF INTERNAL CONTROL IN THE GOVERNANCE OF THE UNDERTAKING

Emilia VASILE, PhD Professor
Athenaeum University, Bucharest, România
rector@univat.ro

Ion CROITORU, PhD Associate Professor
Athenaeum University, Bucharest, România
ion.croitoru.ag@gmail.com

Abstract: *Governance is a key element in increasing economic performance, being responsible for developing development policies and strategies, building the organizational structure with roles and responsibilities, developing and applying ethical principles, promoting values, and implementing internal control. Business governance through established good practice-based management systems responds to the interests of shareholders, investors, creditors and other stakeholders, harmonizes relationships of any type with the environment in which it operates and is responsible for effectively and efficiently delivering organizational objectives.*

Internal control is a function of management, with which it exercises its responsibilities and influence over all other managerial functions. Through control, management ensures that the objectives, credibility of financial reporting, efficiency and effectiveness of operations, compliance with applicable laws and regulations are ensured. The internal control function ensures the company's management the proper and regular performance, efficiency, economy and efficiency of its tasks, fund and patrimony protection, compliance with laws and regulations, as well as the existence of specific, efficient and effective information and reporting systems and procedures.

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Enterprise governance features

Enterprise governance is the set of organizational and operational measures implemented within an organization that match the interests of shareholders and determine the powers of those responsible for governance, the limitations of their decisions, and their attitude. The mechanism is designed and focused on financial discipline and managerial accountability, maximizing efficiency and effectiveness and value for shareholders. Maximizing shareholder value corresponds to maximizing the value of the enterprise's shares and the value of dividends received by shareholders.

Business governance processes include, on the one hand, specific methods and tools adopted for corporate governance and management, including on risk management and internal control, and on the other hand relationships established between management, employees and third parties with interests towards the organization in order to achieve the established objectives.

The way in which the business governance process is organized is country-specific, industry or organization type. It implies specific characteristics, structure, mechanisms and specific objectives, determined according to the size, organization and functioning of the enterprise and the maturity of the enterprise.

The mechanisms of enterprise governance implementation are created both as rules of behavior and managerial control, and as principles to be re-enacted in the managerial act. The rules and principles implemented are dominated by the concentration of the company's capital. Thus, a company's capital concentration in the hands of a limited number of shareholders allows for better control over management and, implicitly, performance. The dispersion of capital into the hands of a wider number of shareholders may have a positive or negative effect on the performance of the enterprise, depending on the culture of the stakeholders and the role of the majority shareholders on the organization.

Taking into account that the efficiency of an enterprise is characterized by the performance and quality of its internal control system, two levels can be distinguished in its description, namely:

- the governance system, characterized by the well-implemented rules and principles of good practice that legitimize the role, decision-making power and management control of the enterprise;
- the control system, characterized by all the devices and measures implemented in order to ensure the achievement of the established objectives and the measurement of the obtained degree of performance.

The governance system and control system of an enterprise are directly influenced by the organizational culture, the concept of enterprise applied, the way of delegating and separating responsibilities, the rights-holders, the various mandates responsible for certain operations or activities of the enterprise.

The persons responsible for corporate governance have the obligation to set up an adequate risk management system in order to identify the threats affecting the achievement of the objectives and to take measures to limit them, as well as a system of control and evaluation responsible for monitoring the setting up and use resources and patrimonial integrity.

In the general context, corporate governance is recognized as the set of management forms and practices implemented at the organization level, ensuring legitimacy and authority in decision-making. Coding forms are the representation bodies (general shareholders' meeting), executive bodies (board of directors, chairman, general manager) as well as control bodies and audit committees.

Internal control - function of enterprise governance

Internal control, as a function of enterprise governance and a function that provides the organization with useful information for making the most appropriate decisions, has a wide scope of action, specific to all management levels and all activities within the organization. Depending on the information it provides to the management, it can perform its responsibilities in terms of forecasting, organization, coordination and control in good conditions.

Internal control is all the forms *of control exercised at the level of the organization, established by management in accordance with its objectives and legal regulations, in order to ensure that the funds are managed economically, efficiently and effectively.*

The implementation of a functional internal control system is characterized by:

- *integrated process* - control tools embedded in the organization's activities;
- *designed by management* - management sets goals, designs and implements internal control tools, monitors and evaluates their functionality;
- *implemented by all staff* - the internal control system is set up by management and implemented by all staff according to the responsibilities and limits of authorization established for each;
- *based on risk identification and assessment* - management identifies and manages the risks they face in achieving the objectives;
- *the provision of insurance* - a reasonable assurance, based on the assessments made, on the degree of functionality of the internal control, and on how well it protects the funds and the patrimony of the enterprise;
- *Achieving the objectives* - through the measures taken to eliminate the malfunctions in the implementation of the activities, the internal control contributes to the achievement of the organizational and individual objectives.

The internal control system is associated with the procedures, means, actions or provisions that need to be issued and implemented by management to carry out the activities. The purpose of implementing an internal control system is to ensure good control, both on the operation of the enterprise as a whole and on the achievement of each activity or operation.

In this respect, internal control is considered to be a dynamic process that has the specific responsibility of protecting property assets and preventing and detecting errors, fraud, loss, abuse and poor management. This process needs to be continually adapted to organizational changes and must provide assurance and trust to management that funds are used appropriately and appropriately managed assets.

By designing and implementing an adequate internal control system, the enterprise can perform its functions, manage the patrimony and organize, guide and carry out the established activities and achieve the set objectives. Also, through the control function, the company's governance can achieve real and preventive information about the activities carried out and thus, in

reality, set deviations from regularity and compliance, as well as inefficiency in the use of resources.

Regarding its role and function of the management, in order to determine the efficiency and functionality of the internal control processes, it is necessary to go through several stages, namely:

- determining and determining the results obtained;
- comparing the results achieved with the objectives and targets set and quantifying deviations;
- identifying the causes of the deviations;
- take the necessary measures by implementing appropriate control devices or measures to correct existing dysfunctions and eliminate the causes that generated the identified deviations.

By implementing an internal control system within the enterprise, it is intended to ensure that the objectives set are achieved at an appropriate level of quality, resources are established and used in terms of efficiency, effectiveness and economy, and the patrimony is properly managed and protected against loss or fraud.

To achieve a true level of enterprise efficiency and effectiveness as well as for adequate resource use, the control function should be built in such a way that it is largely preventive, and in the case of risk materialization control has a corrective, focused on cause-effect analysis and the ability of management to make effective and immediate decisions.

Internal control is implemented at the level of all the functional structures of the enterprise and is characterized by all the control devices or measures implemented by the management to ensure the functioning and carrying out of the activities under the planned conditions.

Control functions within the enterprise

The control is designed to help, through the information provided, the company's governance to make informed decisions about the achievement of objectives and organizational development. The process, which involves a complex set of theoretical, organizational and methodological measures, is useful and necessary to the organization, grants the patrimonial and financial integrity and ensures organizational development.

The objective of internal control is to assess the compliance, efficiency and effectiveness of the activities carried out by applying various specific methods, techniques and procedures, to identify deviations and malfunctions from the established rules and to take measures to correct and prevent them in the future. This objective can be achieved by performing control functions, namely:

- *prevention and refinement* - prevention prevents the occurrence of some dysfunctions in the carrying out of the activities, and through pre-treatment it ensures the good management of the patrimony, the good organization and management of the activities;
- *finding and correction* - The finding assesses the extent to which the objectives are met and, depending on it, the deviations are identified and corrective actions are taken to eliminate or prevent dysfunctions;
- *knowledge and evaluation* - by knowledge, it is ensured that a demanding analysis of the dysfunctions is carried out in the activity of the enterprise, and by evaluation it is determined, in reality and legality, the patrimonial and financial consequences. With this function a real, complete and exequate quantification of the activities or processes carried out is carried out;
- *education and stimulation* - as internal control through the results achieved and the applied measures becomes a positive, educational and stimulating function for the future, which helps to overcome crisis situations and achieve the expected results;
- *constructive* - according to which future development is estimated, threats are prevented and measures are being taken to improve the activities;
- *regulation* - which ensures the identification of the factors that disturb the activity and maintaining the functional and financial balance needed to carry out the activities.

In addition to these functions, *the internal control is also specific and the functions of measuring the planned deviations, intervention for the solution and prevention of the malfunctions, diagnosis of errors, recovery of the activity, as well as revision of the objectives for the next period in the function of the obtained results.*

Integrated framework of internal control

Internal control is a set of devices set up by management and implemented by managers at all levels to monitor the degree of operation and performance of the activities. These devices provide reasonable assurance that the objectives of the institution are being met.

The company's management is responsible for implementing the internal control system, establishing appropriate control policies and regularly monitoring their effective operation through:

- identify activities that are not working properly and require the implementation of internal controls;
- establishing adequate internal control tools;
- the proper implementation of established control instruments;
- verifying the degree of functionality of control and ensuring that control mechanisms limit and maintain risks at accepted levels.

The internal control devices set up by the management must be constantly adapted to the company's strategy and objectives, to the work environment, activities and organizational structure.

Taking into account that the notion of internal control takes into account the efficiency and effectiveness of operations, the fidelity of the financial statements, compliance with regulations and regulations in force, it can be defined as *the process by the board of directors, management and the entire staff of the organization, to provide reasonable assurance that the organization's objectives are being met.*

In the light of the definition formulated, internal control is a process involving all staff of the organization, following certain rules and principles, which assures the management that the established objectives are met under conditions of regularity, compliance, economy, efficiency and effectiveness.

The integrated framework of internal control implies that the internal control system is structured and defined on certain essential elements, which are in close interdependence with each other. These elements are defined as follows:

- *the control environment*, is the main component of the internal control system, being influenced by organizational culture, leadership style and the value system promoted at the organization level. In the absence of a control environment or under the conditions of an unfavorable control environment,

internal control can not be said. In analyzing and evaluating the internal control system at an organization's level, staff need to demonstrate compliance with the integrity, competence and value system requirements. Their lack prevents the proper and effective functioning of internal control;

- *risk management*, involves performing rigorously defined and organized activities to ensure that the organization's goals are met and the risks associated with them assessed. Risks related to the activities carried out are identified and analyzed on the basis of appropriate plans in order to limit the consequences if they materialize. Awareness of the risks in achieving the goals involves assuming responsibility, however careful the decision-making may be, the risk and uncertainty situation exists and can occur at any time. The implementation of the risk management process ensures overall risk control and allows for an acceptable level of risk exposure to be maintained at a limited cost;

- *the control activity* is represented by the policies and procedures implemented in order to fulfill the management's decisions. Existence of inadequate control systems increases the risk of deviations from established policies and programs, with the consequence that objectives are not met. The complexity of an internal control system is directly proportional to the complexity and difficulty of substantiating and achieving the set objectives. The control policy applied within the organization requires assessments and diagnostics to establish the control objectives, the types of control to be applied, the resources needed to carry out the control, the training of the staff, the improvement of the methods and the control procedures, the evaluation mode of controls. Separation of the duties of the person is an essential condition for obtaining and holding a stable and effective internal control and can be accomplished through the execution of the operational activities by persons independent of those who carry out the financial activities, respectively the initiation activities and the verification activities.

- *information and communication*, are analyzed together, complement the risk assessment and control, and enable the staff of the organization at all levels to collect and process relevant, relevant and appropriate information for managing and controlling the operations of the organization. The types of information required, the content, the quality, the frequency, as well as the sources and their recipients are established and accountable so that the staff of the organization can perform its tasks. The information must be correct, credible, clear, complete, timely, useful and easy to understand.

- *monitoring*, ensuring the proper functioning of internal control through ongoing monitoring of control activities. This can be done by the staff of the organization or by internal auditors, and has the role of identifying errors in the functioning of internal control and taking corrective measures, impacting on the effective and effective achievement of the established objectives. When identifying errors or indications of fraud that may adversely affect the organization's interests, they are reported to the competent control bodies.

These elements of the internal control system form a synergy that provides an integrated system of internal control implementation. This integrated system of intensive control reacts dynamically to changes in the internal and external environment and determines the need to manage the dysfunctions found in order to ensure the continuity of the activity under conditions of compliance and efficiency.

A well-organized and implemented internal control system helps to identify any deviations from established policies and procedures, compliance and regularity, and the possibility of taking appropriate control measures approved at appropriate levels that limit exposures to risk. To this end, the organization's management must monitor the work carried out and ensure the appropriate measures at all times and circumstances.

Conclusions

Enterprise governance provides for the development of an own organizational culture that facilitates understanding of the processes and activities carried out, an appropriate working environment and control, as well as adequate financial, verification and evaluation systems, the implementation of which ensures efficient and effective management.

Corporate Governance Officers create organizational and leadership processes that are specific to and appropriate to the organization, set up internal and external relations tools and systems whose implementation implementation grants go towards achieving the goals. Good corporate governance also involves decentralizing the decision-making process, depending on the levels of management and responsibilities established at each level, as well as well trained staff to put them into practice.

The success of any organizational change depends on how the organization's personnel adapts and responds, because any organizational

change directly or indirectly affects the employee's attitude, attitude or value. A strong organizational culture ensures an adequate organizational environment to achieve the objectives in terms of efficiency and effectiveness and an environment conducive to organizational problems.

Internal control ensures consistency of objectives, identifies malfunctions and communicates to management in real time information on performance and perspectives. Regardless of the internal control system adopted and the characteristics of the organization, the application of adequate internal control implies the application of good practices. Internal control is an integral part of the management process through which the organization pursues the objectives set.

Internal control features:

- it is a process and not a function that decisively influences the managerial act;
- is a dynamic process that adapts its methods and techniques to changes in the organizational environment;
- is a means and not a goal, which confirms the management's expectations;
- it is relative, so how well organized and functioning the organization is exposed to risks and deviations or irregularities;
- it is universal, that is, it is done at all levels by all staff and uses forms, procedures, techniques, policies, manuals.

Implementation of an internal control system is a management attribute that is interested in knowing this phenomenon in order to use it effectively in the development of organizational strategies and policies and in eliminating waste, errors and fraud. This is associated with a collective phenomenon, being accepted in part or in full by the organization's staff.

The overall framework of internal control focuses on reasoning management in designing and implementing control as well as evaluating its effectiveness.

The continually changing control environment determines the approach of differentiated and integrative internal control from one organization to another in relation to the interests of each, by taking into account the organizational structure, leadership style, environmental factors and the risks associated with the objectives established.

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