

THE REORGANIZATION OF THE INTERNAL CONTROL SYSTEM WITHIN PUBLIC ENTITIES

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ABSTRACT

The process of reorganizing the internal control system is complex and has deep implication starting with the definition and understanding of the internal control concept in the Anglo-Saxon acceptance approved by the European Union, the reorganization of the internal control systems in the sense of dissipating the control and inspection activities within the process fluxes within entities and implementing the internal control standards stipulated by the Order of the Ministry of Public Finances no. 946/2005 in Romania. Practically, the implementation of the new managerial control system represents, also, a problem related to the organizational culture within the field in Romania. Within this revolutionary process for the reorganization of the internal control and management system, the entities are confronted with the necessity of setting up working groups that will monitor the process of implementing the managerial control system, with the necessity of setting up a Risk Register and, finally, with the necessity of elaborating operational working procedures for each activity that contributes at the realization of the public entity's objectives. But, this process won't be final without the acknowledgement of the management factors regarding the necessity and importance of reorganizing the managerial control system, the internal audit role and, generally, the appropriation of the corporate governance principles. The process of implementing the managerial control system in Romania will be monitored by CHUPIA from the Ministry of Economy and Finances, once at every 5 years and by the Court of Accounts, every year, with the occasions of the missions unfolded by this institution and will represent an external evaluation for public entities regarding the evaluation of the steps taken in implementing the managerial control system.

Key words: *internal control concept, strategic control, tactical control, operational control, self control, chain-control, hierarchical control, concomitant control, internal control code, COSO, CoCo, feed-forward control, feed-back control..*

In order to be efficient, an internal audit function must base itself on the internal control and management system within the entity, because it represents the internal audit's object of activity. If the internal control system within the entity it is not organized and does not function in accordance with the international standards and principles, neither the internal audit function will not be efficient.

In consequence, the organization of the internal audit activity doesn't reduce or dismiss internal control. On the contrary, in accordance with the international general principles of good practice, control is assigned with a much larger acceptance and it is regarded as a managerial function, not just as a simple verification operation.

The optimal functionality of the entities, on the basis of an integrated framework of internal control, imposes the existence of an adequate control environment that will promote ethical values, will be transparent, that will accept the standards of good practice and that will establish responsibilities in accordance with the strategies and policies approved by the higher management.

Internal control is present on every hall of the entity and manifests itself through self-control, chain control (for every phase of the process) and through hierarchical control. Regarding the time in which it is fulfilled, control is concomitant (operatively), ex-ante (feed-forward) and ex-post (feed-back).

For an adequate comprehension of the internal control concept, regarded from the point of view of the general principles of good practice accepted on an international level and in the European Union, we present the definition approved by the European Commission:

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*Internal control*² represents all the procedures and policies conceived and implemented by the management and by the personnel of the public entity, for providing a reasonable assurance for:

- achievement of the entity's objectives through an economic, efficient and efficacy manner;
- conformance with the external regulations and with management' rules and politics;
- protection of the assets and information;
- detecting and preventing frauds and errors;
- quality of the accounting documents and the production, in a specific time frame, of trustful information regarding the financial and management segment of the entity.

*Management process*³ materialized in prediction, coordination, organization and training – managerial functions has, as a support, the continuous exertion of evaluation-control function, which, in its essence, consists in the comparison of results with objectives, detecting the causes that determined the positive or negative deviations and taking the necessary corrective or preventive measures.

Exerting the evaluation-control function it is not looked anymore as an exclusive stipulation for a specialized control person/structure but, contrarily, control is being considered as being a process that takes place within the whole entity starting with general management/main credit coordinator and finishing with the last employee that has the responsibility of fulfilling a certain type of control. Control activities can be classified as follows:⁴:

- *strategic control* concerning the achievement of the general objectives and it is realized by the entity's governance;
- *tactical control* for achievement the derived objectives, of first degree from the general ones, exerted by executive management;
- *operational control* regarding the achievement of the derived objectives, of second or third degree from the general ones, exerted by inferior level management;
- *self-control* it is exerted by each and every person, management or executive, for the achievement of the objectives' attributions.

Through the current control activities we can find: observation, notice, approval, decision, sanction, planning, verification, analysis, budget for expenses, security of assets, tasks' separation, reporting and monitoring.

Besides the management integrated control activities specialized controls fulfilled by certain structures (commissions, control compartments and so on) can be organized, which develop their activities on the basis of a plan and by taking into consideration the specific risks.

In practice, control does not mean⁵:

- redoing the subordinates' tasks;
- setting up traps for reveling errors;
- constantly exerting an excessive surveillance/verification over what is done.

In the same time, control represents⁶:

- an act of assistance materialized in the guidance of the person controlled through new and difficult tasks;
- a manner for adopting an adequate conduit in report with the strong points or with the weaker points of the person controlled;
- an act of motivating, in the sense that the person controlled must understand the fact that his work is important and that his efforts, difficulties and performances are not ignored;

² Order of the ministry of public finances no. 946/2005 approving the Internal Control Code, comprising the internal management/control standards at the public entities and for the development of the managerial control Romania's Official Gazette no. 675/28 July 2005

³ Virgil Mihuț – Methodological guide for developing the internal control within public entities, MFP site www.mfinante.ro

⁴ Ibidem

⁵ Ibidem

⁶ Ibidem

- an act of verification for the fulfillment of tasks in random periods of time and which must be finalized with an inscribed (visa, note, report and so on) necessary in order to appreciate the controls' quality and their frequencies.

The own internal control system that exists within every entity must be developed and perfected until it reaches a level that will allow the governance to have a much better control over the functioning of the entity, as a whole, and for every activity, with the purpose of realizing the established objectives.

The general manager/main credit coordinator and, also the other persons that occupy a governance position within the entity, are responsible for the creation and functioning of that internal control system that will provide a reasonable assurance that the objectives will be achieved.¹⁰⁹

Managerial responsibility exerted by an organization's management presumes that, within internal and external restraints the realization of the established objectives in an efficient, efficacy manner and in accordance with the law, to communicate and to respond for the lack of fulfillment of its managerial obligations according to the type of juridical responsibility.

In organizing the managerial activity, managers must take into account the following fundamental principles⁷:

- the general manager/ main credit coordinator is responsible for the fulfillment of the entity's objectives;
- the general manager/ main credit coordinator can delegate authority without giving up its general responsibility
- managerial responsibility doesn't exist without the corresponding authority;
- responsibility requires transparency and liability;
- the internal control system must rely on verifications and corrective measures within the entity, but, also on external evaluations.

In order to reorganize the control system, the European Commission has recommended the set up of the Central Harmonization Unit of Financial Management and Control Systems – CHUFMCS⁸ within the Ministry of Economy and Finances, in the year 2005, as we have already stated.

The main purpose for which CHUFMCS was created consisted in aiding the general management within public entities to define and organize its *own internal control system*.

Because of these considerations, in 2005, CHUFMCS issued the *Internal Control Code** that comprises the internal management/control standards at the public entities level, and for the development of the managerial control systems and contains stipulations concerning the management' obligations and responsibilities from every public institution, from which we enumerate:

- the leaders of the public institution will order the necessary measures for the elaboration and development of the managerial control systems in accordance with the international control standards, including the written procedures for every activity;
- the management has the duty to identify risks and to undertake actions that will maintain risks within an acceptable level;
- for the possible needs of undertaking some punctual inspections or control activities, managers can set up commissions on the basis of an order/decision of the general management or, if, the situation imposes, control compartments that will function on a permanent basis or for certain periods of time, in order to resolve the weaknesses within the entity.

The general principles of good practice, accepted on international level, that compose the *aquis communautaire* have been the basis for the realization of the internal control standards. Also, for the

⁷ Ibidem

⁸ Government Decision no. 2.088/2004 for the modification and completion of the Government Decision no. 1.574/2003 regarding the organization and functioning of the Ministry of Public Finances and the National Agency for Fiscal Administration

elaboration of the internal control standards the experience in the field accumulated by the European Commission, INTOSAI, Sponsoring Organizations of the Treadway Commission - COSO and The Canadian Institute of Chartered Accountants – Criteria of Control – CoCo was taken into account. The manner in which these principles are transposed within the specific internal control/management systems for each country depends, also, on the constitutional, legislative, cultural and administrative conditions of these countries.

Internal control standards represent an important contribution for accumulating the knowledge regarding the general principles of good practice within the field of activity, on the basis of which entities can set up structures with responsibilities for implementing the internal control and financial management systems.

For implementing the own internal control system, leaders of the entities must dispose the necessary measures for organizing and/or developing the Register of Risks, the managerial control systems for every entity, of the working operational procedures, formalized on fluxes/processes/activities, taking into account the particularities of the legal framework and other specific elements.

Internal control standards define minimum mandatory rules for the management, which they, together with the internal audit, must implement and to monitor their permanent functionality.

The internal control standards' scope represents a reference system for the organization of the managerial control within the entity and through which the areas and directorates that require this change can be identified.

For this, in the public sector, on the basis of the Order of the ministry of public finances no. 946/2005 approving the Internal Control Code, the leaders of public entities must dispose the necessary measures for the elaboration and/or development of the managerial control systems of each organization, including procedures, formalized on activities, taking into account the particularities of the legal, organizational, personnel, financing framework and other specific elements.

The objectives, actions, responsibilities, deadlines and, also, other components of the necessary measures will be included in programs for the development of the managerial control systems, elaborated at the level of every public entity. In these programs, the professional training actions, both for the persons with leadership responsibilities and for the ones with executive responsibilities and, also, the way of organization will be distinctly included.

Regarding the monitoring, coordination and methodological guidance for the own managerial control systems, through an act of internal decision, the leader of the public entity sets up working groups⁹ with specific responsibilities, if the situation imposes.

The structure, way of organization and of work, and also other elements concerning the working groups, are established in accordance with the volume and complexity of the public entity's activities, by its leader.

Internal control is present on every hall of the entity and can be expressed through self-control, chain-control (for every phase of the process) and through hierarchical control. Taking into account the moment of exertion, the control can be concomitant (operatively), ex-ante (feed-forward) and ex-post (feed-back).

Through the current control activities we encounter: observation, notice, approval, decision, sanction, planning, verification, analysis, budget for expenses, security of assets, tasks' separation, reporting and monitoring.

The current control activities will have to be integrated within the line management by incorporating them within the formalized operational procedures. As such, the own internal control system that exists within every entity, must be organized and permanently harmonized in order to allow the governance to have a much better control over the functionality of the entity, as a whole, and, also, over each activity, in order to accomplish the planned objectives.

⁹ According to article 3 from the Order of the Ministry of Public Finances no. 946/2005 approving the Internal Control Code, comprising the internal management/control standards at the public entities and for the development of the managerial control and the Order of the Ministry of Public Finances no. 1.389/2006

The general manager/ main credit coordinator and, also, the other persons that occupy a leadership position within the entity, are responsible for the creation and functioning of that internal control system that will give a reasonable assurance that the entity's objectives will be achieved.

Managerial responsibility exerted by an organization's management presumes that, within internal and external restraints the realization of the established objectives in an efficient, efficacy manner and in accordance with the law, to communicate and to respond for the lack of fulfillment of its managerial obligations.

Managers must not wait for an outside person to come and organize the control systems within their own entities.

During the period of planned economy they were used to a system in which the Romanian Court of Accounts, the Ministry of Public Finances and other external control systems came, on a regular basis, to fulfill background controls for their own activity.

The preparation for Romania's adhesion to the European Union imposed, within the internal public financial control domain, the reorganization of the internal control systems within public entities, which used to be organized under distinct control/verification or inspection compartments. The European Commission's recommendations were targeted towards the suppression of these compartments and the integration of the internal control activities within the processes' fluxes unfolded within the entities. The maintenance of a control or inspection compartment was explained only through the existence of the specific activities within the entity and it was justified by the corresponding volume of tasks. For example, in some ministries, a general directorate for fulfilling inspections was maintained, taking into consideration that the impressing volume of notifications and denunciations requiring urgent responses, and their transfer, for solution, to the executive structures, would have lead to the "suffocation" of their activities.

In the present, the managers must understand the responsibilities they own in organizing their own internal control system, within their entities and what this system presumes but, also, the fact that this responsibility was transferred, as a whole, and this means that they must be more involved for the efficiency of this system.

For the public system, the role of the Ministry of Economy and Finances and/or the Romanian Court of Accounts consists in evaluating if the internal control system implemented by management functions, and it is capable to stop the possible inefficient usage of funds and to identify the deficiencies of the way in which these funds are being administrated.

Under these conditions, the management will have to "invent" control activities that will permit them to administrate the risks as they appear and to take into account the fact that these risks are always in a continuous evolution, to limit their consequences through a flexible internal control system which has to be easily adjusted in certain domains or compartments within the entity, if the situation imposes.

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