

ASPECTS REGARDING THE INTERNAL CONTROL ON THE LEVEL OF PUBLIC ENTITIES IN ROMANIA

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Abstract: Internal control has become a vital integral part of the modern management system. That is why the managers of public entities have to adopt an entire array of measures concerning the organization and management of their activities, which in fact represents implementing their own system of internal control. In Romania, internal control represents the ensemble of the forms of control exercised at the level of the public entity, including internal audit, established by the management according to their objectives and the legal framework. According to the International Audit Standards, internal control is defined as “the process which is conceived, implemented and maintained by the persons commissioned with management, leadership and other personnel categories with the purpose of delivering a reasonable assurance regarding fulfilling the objectives of an entity as far as the credibility of financial statements and the efficiency of the operations are concerned, as well as their conformity to applicable laws and rules.”. In the present paper the authors have tried to pinpoint the importance of internal control in public institutions.

Keywords: internal control, audit, management, international audit standards, management control.

Introduction

Semantically speaking, control means “a permanent or periodical analysis of an activity or of a situation, in order to observe its course and be able to take the necessary measures for improvement”. At the same time, control signifies a continuous moral and material surveillance, as well as mastering a certain activity or situation.

However, in the specialty literature there are more definitions of control:

- In the French-speaking countries, control represents carefully checking or inspecting the correctness of an act;
- In Anglo-Saxon frameworks, control means the activity of observing an individual or a thing, a minute examination done with the purpose of knowing or improving the functionality of a mechanism.

Within the Romanian legal framework, internal control is defined as being the assembly of all forms of control exercised at the level of public entity, including internal audit, established by the management in accord with its objectives and the legal provisions, in order to ensure the management of public funds in an economic and efficient manner; this also includes the organizational structures, methods and procedures.

According to the International Audit Standards, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants

(IFAC), internal control is defined as being “the process conceived, implemented and maintained by those charged with governance, management and other categories of personnel with the purpose of providing reasonable assurance regarding the fulfillment of the objectives of an entity regarding the credibility of financial reporting, the efficiency of operations and the conformity with applicable laws and regulations”.

Material and method

The present paper is the result of the careful processing of information gathered after having taken into consideration a series of works acknowledged as relevant for the chosen topic, as well as the careful examination of the regulations regarding internal control at the level of public entities

Results and discussions

The notion of internal control is understood differently in various European countries. While in some countries there are specialized institutions for internal control, independent from those controlled, in other countries the responsibility of internal control falls upon the respective administrative entities. Some countries have a system of internal control integrated within the system of governance. The need to establish internal control, to report on it and to apply an approach on managing the risk can be formulated distinctively in laws and regulations, or it could derive from an existing legal framework. Within decentralized systems, the managers in top management have the duty to report on the functionality of internal control systems.

More and more countries demand from such managers the application of management systems that can diminish the risk of not fulfilling the established objectives. In Luxembourg and Spain, the notion of internal control is regarded as being the whole public administration control system and the sum of all institutions taking part in the management of public funds. These countries also have specific control organisms, like Intervención General de la Administración del Estado (IGAE) in Spain or Inspection Générale des Finances in Luxembourg, which are independent from the authorities and entities that they control, economically and financially.

Especially in countries like Denmark, the Netherlands, Sweden or the United Kingdom, the public internal control system is understood as the conceptually comprehensive approach harmonized by the government to ensure the establishment, maintenance and monitoring by the managers of all public entities of all integrated management processes. In these countries, internal control has the goal of managing risks and supplies a reasonable assurance regarding the meeting of general objectives, while following the entity’s mission. These objectives refer to the adequate execution, ethically, economically and efficiently, of activities; liability obligations; conforming to the applicable laws and regulations; protecting the sources that need not be wasted, but adequately used, without being deteriorated.

In France and Portugal, where there once were powerful institutions specialized in control, one has begun to decentralize the ex ante control in particular, and through this to increase the responsibility and accountability of public managers.

Internal financial and accounting control of the entity is to be applied in order to ensure the accounting management and a financial monitoring of the company’s actions, so that the defined goals can be achieved. This control has in view the assembly of process for

obtaining and communicating accounting and financial information and contributes to the delivery of coherent information, in conformity with the legal provisions.

Through control, the public entity ensures the dynamic information, real and preventive, that raises the value and quality of decisions. The main models of control, recognized internationally, conceived in order to organize the internal control system so that it corresponds to the demands of management are: the COSO model in the US and the COCO model in Canada.

Comparing the two models for internal control one can draw the following conclusions:

- a) According to the COCO model, internal control is a process implemented by all the employees of an entity and has a relative character, offering a satisfactory assurance regarding the fulfilment of objectives.
- b) According to the COCO model, internal control places a stronger focus on the means implemented than on employees, without offering absolute assurance that “it helps to reach objectives”.

In order to promote efficient management, in the public sector one implements the public internal financial control, which includes the management/ internal control system, internal audit, coordination and centralized harmonization of all components.

Public internal control has always existed in all countries, and lately it has been developed as a concept recognized and used on a large scale, reaching the status of a basic element of the modern management system. In the European Union we find the following forms of public internal control:

The French public administration has a long tradition of public-affairs control, notably based on the principles of the Declaration of the Rights of Man¹⁷ and enshrined in the Constitution¹⁸, which is also reflected in the legal rules set out, for instance, in general and specific civil service regulations and in the Public Procurement Contracts Code.

Against the background of an accounting and financial organization of the French State structured around a centralized accounting network, which guarantees the financial uniformity of the French administration and the separation of the functions and tasks assigned to the authorizing officer and the accounting officer, the French public administration relies on a robust internal control environment. Internal control has thus been centred on the accounting and financial function, at the initiative of the Directorate General for Public Finance as a part of its responsibilities related to the keeping of State accounts. The financial control reform was conceived with the aim of developing internal budgetary control. Instead of a control performed systematically during the operations, which may slow down the implementation of expenditure and, consequently, affect the efficiency and the effectiveness of public action, financial control encourages the authorizing officers to equip themselves with tools and methods in order to control their operations.

In Germany, top managers assume their responsibility for establishing an adequate internal control system by setting up and supporting an organizational control unit called the ‘Interne Revision’, hereafter internal audit. Managerial accountability is carried out by the head of the authority. The internal audit unit reports directly to the management, which cannot transfer its competence to other offices in the authority

In Greece, the internal control system ensures compliance with Administration policies, it safeguards the agency's assets and resources by certifying the completeness and accuracy of accounting documents and it provides timely and reliable information on healthy (sound) fiscal management.

The roots of the Hungarian regulation of the public control system go back to 1989. The essence of the internal control system as an integrated approach to corporate governance is that it covers regulations, procedures, functional methods and organizational structures aiming to achieve the objectives of management. Internal control shall prevent, detect and/or correct events which endanger such objectives. The internal control system is an integral process that is designed to obtain reasonable assurance and to ensure assessing risks.

In Ireland the principles of the current system of accountability and control are mainly derived from the Constitution and from the institutional and financial relationships between parliament and the executive which have developed over the years. Internal financial control includes a system of delegation and accountability; proper authority for the making of payments, segregation of duties, particularly where the processing of transactions is involved; careful selection of officers with responsibility for money, including ensuring that they have the skills commensurate with their responsibilities and that they are appropriately monitored;

- documentary and physical controls to safeguard assets;
- information and reporting arrangements to management;
- documented financial policies and procedures, including ensuring that they are available throughout the department;
- systems to ensure budgetary control;
- systems to review and evaluate controls

Internal controls in the Italian public administration date back to the early years of the new Italian state, to Law No 5026 of 1869 on public accounts. In order to make the tools for controlling public finances more effective, the practice used hitherto of covering each new legislative initiative with three balances has been put on an institutional footing, making implementation of the cover required by the constitution consistent with the criteria and parameters adopted by the European Union.

The Dutch public sector is basically decentralized, based on historical tradition. The regional governments (provinces) and the local governments (municipalities) conduct their own household, including an independent financial management. The external control is applied by their own democratic councils. Supervision by central government is limited and indirect.

The State Internal Control System in Spain was developed by the General Government Audit Office, an institution that has been established for 140 years.

The control model takes as its starting point a series of constitutional principles, which include the following: the principles of legality and budgetary specification and the principles of budgetary unity and universality's.; the guiding principles governing both aspects of public spending: an equitable allocation of public resources and the planning and implementation of public spending in accordance with criteria of efficiency.

The internal control environment in the UK operates within a framework of governance and financial discipline designed specifically for the central government environment. It is allied to the corporate governance requirements that operate in the private

sector, but has been adapted to reflect the unique accountability structures in the government sector. The duty to safeguard public funds is central to this.

In all these countries, budgets and administrative laws usually give managers a free hand when it comes to using public funds. From this point of view, we can underline the fact that in the countries where public managers possess a high level of executive power a great deal of attention is given to the proper functioning of internal control systems. In the field of internal control, the community acquis is delineated by general principles of proper management, accepted especially in the European Union, so that the notion of control is associated to the management function. According to the legislation in use, in Romania, internal control is regarded as the assembly of all forms of control exercised in a public entity, established by the management team in accordance with objectives, having as purpose the efficient management of public funds.

The public character of heritage and especially the funds managed by public entities imposes the development of a perfected control system, so that it can ensure the Chief Authorization Office has the most adequate vision of all the activities undertaken by the entity.

The management team has the duty to track the material, human and financial resources available to the public entity which allow for fulfilling the specific objectives. The analyses run by the entire team will lead to the identification of the instruments for internal control that help implementing the right correlation between the objectives and the financial means.

The main instruments of internal control are represented by:

- The interpretation and rigorous analysis of the degree to which real needs are covered, at the level of the entire entity, with the existing resources;
- Applying check-lists to ensure the compliance with the procedures for public acquisition contracts;
- Identifying the nature, structure and characteristics of the resources in order to acquire them, using the available funds.

With the help of these tools, through internal control in public institutions, one is able to compare results with objectives, and to find the causes for negative deviations from the plan; also, to take the necessary measures for prevention or correction.

Internal management control standards are characteristic for a minimum category of guidelines and management rules that all public entities need to implement, through their own resources or with the help of a company specialized in consulting. These standards have the purpose of creating a framework for constant and coherent internal management control.

The leaders of public entities take the necessary measures to elaborate and/or develop internal/ management control system within their own entities. They mainly consist of: elaborating and bringing up to date the program for developing their own internal/ management control system; designing the structure with attributions of monitoring, coordinating and methodological guidance of their own internal/ management control system; elaborating and bringing up to date the procedures focused on activities; following the measures comprised by the development program; running analyses regarding the development of the internal/ management control system, as well as the actions concerned

with monitoring, coordinating and guiding, undertaken by the structure that has got these roles.

CONCLUSIONS

The stage of implementation and development of management/ internal control systems, as well as the special situations observed along the activities of monitoring, coordination and methodological guidance run by the assembled structures, become the subject of reporting, through quarterly/ yearly statements, which are transmitted to the hierarchically superior public entities.

At a practical level, the internal control system functions within an environment that is always changing, which imposes the adaptation of control to the level of each activity, differently and integratively, designed according to the company's interests. This design has to take into account the organization structure of the entity, the managers' style of leadership, the influence of environmental factors and implicitly the risks that may affect the entity.

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