

# FEATURES OF INTERNAL/MANAGERIAL CONTROL IN PUBLIC ORGANIZATIONS

Gheorghe MINCULETE\*  
Maria -Ana CHISEGA-NEGRILA\*\*

\* PhD in Military Sciences, professor at the Logistics, Finance and Accounting Department, The Command and Staff Faculty, "Carol I" National Defense University, Bucharest, Romania

\*\* PhD, associate professor at the Air Force Department, The Command and Staff Faculty, "Carol I" National Defense University, Bucharest, Romania

*Control aims at the protection of patrimony, the quality of information, and the increase of performance and application of guidelines coming from the management of the public organization. It is the process that measures and verifies the quantitative and qualitative accomplishment of tasks, paperwork, and performances, while making the comparison with the planned objectives and showing if some corrective measures are needed. Internal control will always trigger rejection and lack of cooperation from the controlled parties. The article will mainly focus on the elements of the system of internal control at the level of the public organization briefly stressing the standards in the field.*

**Key words:** *management, organizational objectives and activities, control, internal/managerial control, internal control system, strategies of internal/managerial control, internal control standards.*

## 1. INTRODUCTION

In the current international context scarred by the deepening of the economic crisis, internal control plays an important role in the evaluation and improvement of performance in public organizations, a field that should be further developed in order to improve the efficiency of these organizations. This role refers to the evaluation and improvement of performances in organizations from the public sector and cannot be achieved without the existence of specialists in the field, of tools, regulated techniques and methodologies, some of which being adapted to the characteristics of the specific entity.

Initial interest for the definition, delineation, and in-depth approach of the concept of internal control first appeared beginning with the second half of the last century, and belonged to expert accountants, internal and

external auditors from developed Western states. They demonstrated that the application of internal control to the financial and accounting fields at the level of economic entities (but not only), can contribute to making and certifying sincere, accurate, and real financial accounts/statements [1].

Gradually, a number of internal and external factors appeared at the level of entities/institutions. That determined broadening the scope of internal control, from the financial and accounting fields to all the activities of an organization, and stressed the urgent need that the managers of entities/institutions should focus their interest on creating and implementing increasingly efficient systems of internal control, which could allow them to monitor the organization in order to achieve the pre-established objectives. Among the mentioned factors, we could list: the increase and diversity of economic risk factors, the increased complexity of

organizing entities, the frequency of drawbacks in their functioning, the continuous development, but also the complexity of the legal framework that has to be complied with, etc. [2].

The idea of control has its origins in the Latin phrase “*contra rolus*,” which can be translated as “verifying the copy of a document against the original” [3]. Looking back, the practice in the Roman Empire involved recording tax obligations of tax payers in two registers named “*role*” and “*counter role*” kept by two separate people, and which served to check and recheck in order to administer the Empire’s incomes and expenses [4,5].

“Internal control” is part of the standard terminology used by the European Union. However, unlike its meaning of “to verify” [18] used in Latin countries, its main meaning in English is “to have control over”. Worth reminding though is that the meaning of the term control is more complex than that and cannot be solely reduced to its original definition as inspection, and checking [6; 19].

Specialized literature includes other explanations of the term. So, francophone specialists define control as “verification through inspection of documents correctness” [7]. In this respect, the Anglo-Saxons perceive control as “*an action to supervise someone or something; the thorough examination or the power to lead as a mechanism for adjusting the operation of a device*” [8].

As seen in practice, control is not only a means of checking reality and repairing errors, but also a management objective.

Very often, the meaning of the world control is associated with the one of “assessment” which is also frequently connected with the idea of “knowledge”. This will enable management to coordinate, in the most economical and efficient way, the activities within the organization [4;5].

As for its mission, control is an element of management, but, at the same time, it is a “human activity,” useful not only to management, third parties/

business partners, but also to public authorities and even to the population.

In time, control has evolved by improving management and organization systems, as well as the environment in which it functions and which, in its turn, is permanently changing [9;10].

## 2. CONCEPTUAL DELINEATION OF THE TERM

In an economy that is integrated into the information society, control systems can be defined as a group of principles and processes that have as a result an environment which encourages managers and employees to concentrate on obtaining value for company owners and other interested parties [11].

In 1992, the Treadway Commission from the US (The Committee of Sponsoring Organizations of Treadway Commission - COSO) issued a brief integrated model of internal controls and COSO. The purpose of this model was to furnish basic concepts regarding the establishment of an efficient system of internal control [7].

COSO defines internal control as the process related to the managerial team of an entity/institution which aims at providing reasonable assurance regarding the achievement of the following types of objectives: efficiency and efficacy of operation, credibility of financial reference, compliance with laws and regulations [12].

According to the above-mentioned, internal control systems represent, in the view of COSO, a process that is implemented and monitored by organization management whose purpose is to develop and apply the necessary regulations. These refer to the control meant to identify the possible risks and their counteraction to a risk limit accepted by the organization (firm, public institution, etc.) in order to obtain the reasonable assurance that the objectives of that entity will be achieved [8,5].

According to **Figure 1**, the COSO Model includes five components of an efficient system of internal control that gives assurance to the management of the organization as shown below [8].



**Figure 1:** The efficacious system of internal control (COSO Model) [12]

- *Control Environment* at the level of the organization: establishes the basis of the system of internal control by furnishing structure and general discipline.
- *Risk Assessment*: involves the evaluation and analysis performed by the management, not by the internal auditors, of the risks that can affect the established objectives.
- *Control Activities*: refer to policies, procedures, control and other practices whose purpose is to ensure that the objectives established by the management are achieved and the possible risks are identified.
- *Information and Communication*: supports all the other COSO components by informing the employees regarding the responsibilities of control and furnishing of information in an adequate format and in time so that the members of an organization can fulfill their tasks.
- *Monitoring*: involves the supervision of internal control by management, supervision by other members that are outside the process (internal auditors, monitoring entities, etc.) or application of

independent methodologies such as procedures or standard questionnaires filled in by the employees within the process.

According to Western specialists, an efficient system of internal control is based on specific ethics and deontology. To this purpose, policies and procedures connected to this field are promptly understood and followed at the level of the organization which means accepting to perform regulate internal controls in order to efficiently manage risks according to management's expectations.

In the time of planned economy in Romania, control had different objectives, being organized in specialized structures such as inventory, financing, quality etc. It was the state that dictated the interior control of economic entities and organized the exterior control in order to supervise the way in which internal control was performed at the level of economic organizations [13].

Laws that had regulated internal control until 2005 did not represent in a detailed manner what was included into the planning and implementation of adequate and efficient internal control [14]. The document mentioned what the manager of public institutions had to do in this field in order to ensure the drafting, approval, application and improvement of organizational structures, methodological regulations, procedures and evaluation criteria so that the general and specific requirements of internal control could be met, but it did not mention how to do so.

Because the preventive financial control was mentioned in a distinct chapter of the aforementioned regulation, it was perceived as separate control from the internal one, being organized as such and not integrated into the internal control of a public entity.

According to Romanian legislation, internal control is a term that includes all the financial and non-financial control activities,

and structures that organize them. Procedures, methodologies, including internal audit, decided upon by the management and harmonized with its purposes have the mission to assist managers in leading the entity in an efficient, economical, and efficacious way, thus ensuring the application of management's strategies [15; 20].

The Law of internal public audit, article 2, align. b defines internal audit as *“the assembly of control forms exercised at the level of the public organization, including the internal audit, established by the management in accordance with its objectives and legal regulations in order to ensure the administration of funds in an economical, efficient, and efficacious way, also including the organizational structures, methods and procedures”* [16].

According to specialists, in order to draft adequate strategies of internal control, the manager of the public organization will focus on: the necessity of control; the integrity and responsibility of the personnel involved in this process at all management levels and in all the activities; the provisions of procedures and instructions adequate to the organization; the furnishing of timely, internal and external communication; the information from national and specific regulations; the identification, evaluation and management of essential risks at the level of the organization [17].

### 3. Elements and functional coordinates of internal/managerial control

At the level of each public organization, management through its control function takes notice of certain differences of the results compared against the objectives, analyzes the cause that generated this and takes (corrective/preventive) measures. In order to accomplish this, the objectives have to be defined first.

For each public organization, the organic functional objectives are

grouped according to three criteria as follows: the efficacy and efficiency of functioning require the objectives to be connected with the purpose of the public organization and the efficiency of using resources; accuracy of internal/external information refers to the objectives connected to both keeping adequate accounting records, and having pertinent and sufficient information used in the public organization or given to third parties; compliance with laws, regulations, and internal policies determines objectives that are connected with the assurance that, within the public organization, activities will be unfolded according to the requirements mentioned in the laws and regulations while also complying with internal policies [21].

As a complex function of the management of the public organization, internal control brings its specific contribution to identifying and approaching the specific risks so that it will result in achieving the organizational objectives within the planned parameters. **Figure 2** highlights the place and role of internal control within the public organization (entity).

PUBLIC ENTITY
INDEPENDENT <b>INTERNAL AUDIT</b>
EVALUATES THE INTERNAL CONTROL SYSTEM PROVIDES MANAGERIAL COUNSELING
<b>INTERNAL CONTROL</b>
SELF-CONTROL OF THE ACTIVITY MUTUAL CONTROL HIERARCHICAL CONTROL CONTROL OF PARTNERSHIP QUALITY CONTROL PREVENTIVE FINANCIAL CONTROL INVENTORIES ACCOUNTING CONTROL FINANCIAL CONTROL INSPECTIONS OTHERS

**Figure 2:** Internal Control Elements in the Public Organization

Within any public organization, in order to achieve objectives and perform organizational activities, the necessary resources (human, material, financial) are allocated through plans and programs based on functions. So, planning and scheduling represents within the internal control system, the reference basis around which all the specific activities (of internal control) are performed.

Therefore, according to the applicable regulations, the internal control system is defined as a set of policies and procedures designed and implemented by the management and the personnel of the public organization in order to provide reasonable insurance regarding the following: achieving the objectives of the public organization in an economical, efficient and efficacious way; complying with external rules and management policies and rules; protecting goods and information; preventing and detecting fraud and errors; ensuring the quality of accounting documents and producing timely and accurate information regarding the financial and managerial segment [18].

In order to apply and develop an internal/managerial control system in any public organization, eloquent management rules are defined by the current regulations so that an internal control model will be designed by aligning the internal control systems from the organizations with the provisions of the current legal standards.

As a function belonging to the management of the public organization, control imposes through specific mechanisms that knowledge and inventory of patrimony are ensured together with the ways to guide, organize and perform administrative activities. So, through internal control, management ensures that information is dynamic and real, which triggers valuable conclusions and quality decisions.

Internal control is integrated into the management system of all structural components of the public

organization, and falls under the responsibility of the personnel at all levels offering reasonable insurance in order to meet the individual or general objectives. Control activities are undertaken at all levels of the public entity as a form of self-control, chain control (on process phases), and hierarchical control. These activities include observation, comparison, approval, reporting, coordination, checking, analysis, authorization, supervision, examination, separation of functions and monitoring. Specialized control can be organized by specially designed structural components (committees, control structures, etc.) whose activities are undertaken based on the plans designed by taking into account the risks.

Internal control is based on risk management because the management of the public organization has the obligation to identify risks that could affect the objectives, and to take measures that should localize, as well as keep the risk within acceptable limits.

The purpose of internal control systems is to assure the management of the public organization that the risks are kept within certain limits that have been established beforehand and thus contributing to: reaching desired objectives and targets; complying with the laws, regulations, norms and internal policies etc.; providing accuracy and integrity of information and reports; using resources in an economical, efficient, and efficacious way; protecting the stocks (corporate and non-corporate) [13; 22].

The public organization is subjected to permanent decision-making processes that keep it attuned so that it will function normally. This is in fact a system that contains a group of subsystems which are bond to each other by functional elements. When the first signs of disturbance in the system appear, it is imperative that a corrective decision should be taken. This is when control steps in through its role to discover causes and identify risks that disturb its normality in order to take measures

to redress it. The better the use of the correlation between the prevention, risk identification and managerial practice is, the more developed will the organization be and that is why the link between the two activities has to be taken into account at all levels of management [11].

The internal auditor will evaluate the system of internal control of the public organization and will confirm or not its functionality. Even after the internal auditor has finished the evaluation, there is still a risk, audit risk, which cannot be ignored taking into account the relativity of the internal control.

The new architecture of control systems was implemented in 2005 as a result of the

Internal Control Code that represents the very foundation of drafting and planning control in the Romanian public sector through the 25 specific standards (of internal control) that establish minimal management roles that have to be applied by all public entities [3]. At the same time, the standards mentioned are minimal criteria for the adequate and efficacious evaluation of the internal control systems in any public organization.

Control standards regulated in Romania define a minimum of management rules that all public entities have to comply with. To this purpose, an important element is the fact that based on these standards, internal control systems can be evaluated by auditors.

In order to build an adequate reference system, the objective of standards is to create a uniform and coherent model of managerial control based on which internal control systems are evaluated and changing areas and directions are identified.

European practice has determined that the management of each public entity should establish the control systems that are part of their responsibility based on the standards elaborated by the Ministry of Public Finance. In this respect, the

general formulation of the standards was necessary in order to give managers the possibility to apply them regardless of the significant differences that are among different public organizations.

Drafting the standards that lie at the basis of the implementation and development of internal control procedures was based on the experience in the field of the European Commission, INTOSAI, The Committee of Sponsoring Organizations of Treadway, Canadian Institute of Chartered Accountants [5]. These standards, briefly listed below, are grouped in five key elements of internal control [4]:

- Control Environment includes the organization, management of human resources, ethics, deontology and integrity as follows: Ethics, Integrity (Standard 1), Attributions, Functions, Tasks (standard 2); Competence, Performance (Standard 3), Risk positions (Standard 4), Delegation of authority (Standard 5); Organizational Chart (Standard 6).
- Performance and risk assessment tackles the management problems related to establishing objectives, planning, scheduling and performance as follows: Objectives (Standard 7), Planning (Standard 8), Coordination (Standard 9), Monitoring performance (Standard 10), and Risk management (Standard 11).
- Information and communication groups the problems connected with building an adequate information and report system regarding the execution of the management plan, of budget, use of resources, informing on errors as follows: Informing (Standard 12), Communication (Standard 13), Correspondence (Standard 14); Hypotheses, reevaluation (Standard 15), Identifying errors (Standard 16).
- Monitoring focuses on the way to document procedures, continuity of operations, recording exceptions to the procedures, separation of tasks, monitoring

as follows: Procedures (Standard 17), Separation of tasks (Standard 18), Supervision (Standard 19), Managing (Standard 20); Continuation of activities (Standard 21), Control strategies (Standard 22), Access to resources (Standard 23).

- Audit and assessment refers to the development of the assessment capacity of the internal control in order to ensure the continuation of its development process such as: Checking and assessment of control (Standard 24), Internal audit (Standard 25).

According to those mentioned in the regulated standards of internal control, each public organization should function in an efficient and efficacious way because risks, as well as counteracting methods (of solving, overcoming it) are identified in a timely manner as a result of control actions. However, in various situations, internal auditors can constantly improve the system of internal control and counseling managers better than anyone else within the mission and based on a rigorous and accurate methodology, as well as on their experience in the field.

#### 4. CONCLUSIONS

In the context of good practice principles that are part of the Community acquis, control has a broader meaning as it is considered a managerial function and not an evaluation activity. By the use of control, the management observes the lack of concordance between results and objectives, and analyzes the causes that has determined it and takes corrective or preventive measures.

According to the new regulations in the field based on the principles generated by good practice accepted worldwide, each public organization is responsible for the implementation and assessment/self-assessment of the internal control system.

Through the legal procedures established by the management of any public organization, internal control is meant to provide reasonable assurance regarding the achievement of organizational objectives. In this respect, the managers are directly responsible.

In practice, control efficiency and quality depend a lot on the control environment which mainly refers to: integrity and ethical values; leadership philosophy and ways to perform activities; delegation of authority and responsibility; human relations practices and policies; personnel competence and performance; operational policies including rules and regulations.

In order to achieve internal control, the activities through which objectives are met are transformed into tasks, requirements and functions and are assigned to be executed by the units within any public organization (positions, departments, officers, subunits, etc.).

Implementing the internal control is a real opportunity offered to managers in order to improve the function and the performance of public organizations. This involves profound and collective thought about strong points, but especially about the vulnerabilities of the processes implemented within the respective organizations.

#### REFERENCES

- [1] Dezvoltarea sistemului de control managerial la nivelul entitatilor publice. Retrieved September 09, 2013, from [http://www.cnas.ro/pdf/audit/Dezvoltare\\_.sist\\_manag.pdf](http://www.cnas.ro/pdf/audit/Dezvoltare_.sist_manag.pdf)
- [2] GHEORGHE, Dumitru. Analiză economico-financiară. Retrieved Februray 20, 2014 from <http://www.scribd.com/doc/98277105/ANALIZ%C4%82-ECONOMIC-financiar%C4%83>
- [3] GHÎȚA, Marcel (1995). Controlul financiar - componentă a mecanismului economiei de piață. Craiova: Editura Universitaria
- [4] Institutul Auditorilor Interni, Ghid practic privind Auditarea mediului de control intern, București, Aprilie 2011

- [5] GHITĂ, Marcel (2009). *Audit intern*. București: Editura Economică, Ediția a II-a
- [6] *Dicționarul explicativ al limbii române* (1998). București: Editura Academiei
- [7] DEMETER, Alina (2010). *COSO și Managementul Riscurilor*, 28 Iulie. Retrieved September 10, 2013, from <http://alinademeter.ro/2010/07/28/coso-si-managementul-riscurilor/>, accesat în 09.09.2013
- [8] GHITĂ, Emil, GHITĂ, Marcel (2007). *Audit și control*. București: Editura Fundației România de Mâine
- [9] *Legea nr. 234/2010 pentru modificarea și completarea Ordonanței Guvernului nr.119/1999 privind controlul intern și controlul financiar preventiv*.
- [10] BĂNCUȚĂ, Adrian *Controlul intern - noțiuni și sfera de cuprindere (I)*. București: Pentru Patrie. Retrieved October 15, 2013, from [http://www.revistapentrupatrie.ro/index.php?option=com\\_content&view=article&id=107%3Acontrolul-intern-noiuni-i-sfera-de-cuprindere-i&Itemid=60](http://www.revistapentrupatrie.ro/index.php?option=com_content&view=article&id=107%3Acontrolul-intern-noiuni-i-sfera-de-cuprindere-i&Itemid=60)
- [11] SHORTRIDGE, Toppe, Rebecca. *The Evolution and Growth of corporate control systems*, Internal Control Publications. Retrieved October 20, 2013, from <http://www.aicpa.org/Publications/InternalControl/Pages/InternalControl.aspx>
- [12] University of South Florida. *Internal Controls Enterprise-Wide Risk Management*. Retrieved October 30, 2013, from <http://usfweb2.usf.edu/uac/documents/internalcontrols.pdf>
- [13] MITEA, Adrian, BĂNCUȚĂ, Adrian, Ștefan, SUDITU Ștefan, TĂNASE, Dumitru (2005). *Auditul public intern, dela funcția de control la funcția de consiliere în cadrul asistenței manageriale*. București: Editura MAI
- [14] *Ordinul ministrului finanțelor publice nr. 946/2005, pentru aprobarea Codului controlului intern, cuprinzând standardele de management /control intern la entitățile publice și pentru dezvoltare a sistemelor de control managerial*, Monitorul Oficial nr. 771/2006
- [15] Ministerul Finanțelor Publice, Unitatea Centrală de Armonizare a Sistemelor de Management Financiar și Control (MFP), *Îndrumar metodologic pentru dezvoltarea controlului intern în entitățile publice*.
- [16] *Legea nr. 191/2011 pentru modificarea și completarea Legii nr.672/2002 privind auditul public intern*, M.O.nr. 780/2011
- [17] NEGRILA, Alina. *Managementul Riscului și Controlul Intern în Cadrul Organizației*. Retrieved November 18, 2013, from [www.mattig-management.ro](http://www.mattig-management.ro)
- [18] *Model de implementare și evaluare a sistemului de control intern/managerial în cadrul unei entități*. Retrieved November 20, 2013, from <http://forum.portal.edu.ro/index.php?act=Attach&type=post&id=2102231>
- [19] *Le petit Larousse* (1975). *Dictionaire encyclopedique*. Paris: Larousse
- [20] GHITĂ, Marcel (2008). *Guvernanța corporativă*. București: Editura Economică,
- [21] MARE, Emil, OANȚA, Petre, Florin (2007). *Control financiar, audit și expertize contabile*. Sibiu: Editura Academiei Forțelor Terestre
- [22] NICOLESCU, Ovidiu, PLUMB, Ion, PROCOP, Mihai, VASILESCU, Ion, VERBONCU, Ion (2003). *Abordări moderne în managementul și economia organizației. Economia și managementul diferitelor tipuri de organizații*. București: Editura Economică, Vol.3