

IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS AT THE LEVEL OF ECONOMIC ENTITIES AND PUBLIC INSTITUTIONS - WAY OF ELIMINATING RISKS

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Abstract

The objective of this paper is oriented on the analysis of the evolution of the internal control system in public institutions, especially in public schools, because the implementation of the internal/ managerial control system in the pre-university education institutions has become an objective necessity in order to ensure the coherence with the education of the developed countries, and thus cooperation relations with them in the field of education can be created.

Key words: *internal control system, component of Control; financial performance*

JEL Classification: *M40.*

I. INTRODUCTION

For public institutions, good practices within the European Union have also succeeded in bringing into our country the concept of internal/managerial control, being implemented as a multitude of control measures and techniques used to organize an efficient, flexible, public activity that uses as much as possible better budgetary resources (Chiorean, 2015: 44).

The implementation of the internal control system has become a necessity as a result of the liberalization and globalization of the financial markets, of the free movement of information, capital, people, goods by applying international standards. By introducing the internal control system, the managers or any other person responsible for the evolution of the institution ensures that all the resources available to the entity are appropriately used to meet the objectives.

II. DEFINING THE INTERNAL CONTROL SYSTEM AND UNDERLINING THE NEED FOR ITS IMPLEMENTATION

Internal control is defined according to the Code of internal/managerial control of public institutions, approved by OSGG no. 400/12.06.2015, (Order no. 400/2015), "as the whole of the forms of control exercised at the level of the public entity, established by the management in accordance with the objectives of the entity, with the regulations in force and with the internal/managerial control standards, in the vision of managing the funds economically, efficiently and effectively; this includes organizational structures, methods and procedures". On the other hand, according to the Treadway Commission (US) - COSO Public Sponsorship Entities Committee [1], "internal control is a process implemented by the management of public entities, which intends to provide reasonable assurance on achieving the objectives, grouped in the following categories: efficacy and efficiency of operation, reliability of financial information, compliance with laws and regulations".

From this definition we can deduce that the internal control system is represented by a series of actions that affect all the activities of the entity, therefore, it is a transversal process. Thus, we realize that it is necessary to rely on the idea that the internal control mechanism provides a reasonable guarantee for the management and the Board of Directors regarding the achievement of the entity's objectives, we are talking about reasonable, but not absolute, security because of the natural inherent limits in each control system.

In the work *La Ragioneria*, Besta (1892) defines control as a moment of inspection, but also as an essential element for achieving the objectives set by the entity. Therefore, control is a fundamental element in the economic administration and together with the management activity it aims to achieve the efficiency objectives and to protect the heritage from unnecessary and fraudulent losses. The procedure for the realization of an internal control system

refers to the control of the disturbing factors, of all the risks that can negatively influence the fulfilment of the proposed objectives.

The internal control system does not mean:

- stretching traps to detect errors.
- excessive oversight of everything being executed;

Different researchers have proved, over time, the need to implement internal control for better management and organization of entities (Tulvinschi & Socoliuc, 2010; Maciuca & Socoliuc, 2014). These include American organizational theorist and professor of management control at Harvard Business School, known for his work in the field of management control system, Anthony Robert N. The control model of Professor Anthony (1957), a model that bears his name, is based on the function of internal management, which addresses the ability of managers to use accounting data to achieve a higher level of organizational performance. The level of management of the organization has translated the strategic plans of the organization into operating activities. To accomplish this, Anthony explains in his paper that any organization needs plans (such as budgets, targets), for an initial strategic direction of activities and reports, only through these plans the company manages to observe how well the institution's activities have been accomplished. One of the goals of the plans was to direct users' attention to those dimensions important to management. Since these "numbers" were the data that they would individually use to evaluate them, this process had to reach the goal congruence.

Anthony's triangle (1965) is an organizational model that designates the hierarchical view on the managerial structure. Thus, it is structured at the bottom with several operational decisions, or in other words it is focused on operational control, in the middle of the triangle some tactical decisions or managerial control, and at the top of the triangle planning or strategic decisions. The larger an element in the triangle, the more it covers and becomes less precise. As the elements move down, they become more detailed and apply more concretely.

The internal/managerial control system comprises all the forms of control that are carried out at the level of the public institution, including the internal audit, established by the management in relation to its objectives and with the legal regulations, in order to ensure the management of the funds economically, efficiently and effectively, including the structures organizational tools, tools and procedures (Pipaş, Sirbu & Pipaş, 2014; Bostan & Grosu, 2010; Ţurcanu, Bostan, Mateş, Socoliuc & Grosu, 2008).

III. THE EMERGE OF THE INTERNAL CONTROL SYSTEM IN PUBLIC AND PRIVATE INSTITUTIONS

Adopting an adequate internal control system is considered both academically and professionally as a key factor for the governance of private and public entities.

With regard to public entities, it has been strongly affirmed, especially in the last decade, the need to carry out a control of public expenditures and the need to implement interventions aimed at restraining and retraining them in relation to the services provided to the citizen; this need has become not only strongly presented on the agenda of different governments, but also an important objective within the European context. For this reason, a virtuous way has been taken to improve the monitoring of public finance flows, at central and local level, to manage public spending in a more structured and efficient way. The purpose is to allocate resources in a not so linear way, but by analysing the individual elements of expenditure in relation to the real needs of the system.

Public entities are the main consumers of public resources, and the implementation of an adequate control of the way of managing public resources has become a concern for the government. The control theme is one of the elements that public entities must work on, improving the activity of verification and reporting.

Within public entities, Internal Control has a considerable impact on the credibility of a government and the operations it carries out.

The regulation of internal control at the level of public entities, in Romania, was made by the publication of GEO no. 119/1999 regarding the internal managerial control and the preventive financial control, republished, with the subsequent modifications and completions.

In 2003, within the framework of the Strategy for the development of public control in Romania, several general objectives were adopted (see SCIM Manual on sgg.gov.ro), and in 2005 with the entry into force of OMFP no. 946/2005, the implementation of the standards of internal managerial control at the level of the public entities in Romania became mandatory.

Before the control system is implemented within a public entity, comparisons should be made between the additional costs generated by these control systems and the benefits it brings, because the resources available to public entities are limited.

Internal control can be compared with a key by which information can be obtained regarding the progress or against the backwardness of the management in meeting the objectives. Public entities must design an internal control system that reduces the risks to a minimum, as much as possible to zero. The internal control system of the public administration aims to ensure that the administrative bodies, in order to achieve their set objectives, operate according to the law, through legal procedures and resources, as a result of a transparent decision-making process.

One of the fundamental problems that have led to a change in the approach of internal control in public management is the problem of increasing needs, which does not correspond equally with increasing the availability of resources. It is therefore necessary to make a careful choice of the needs to be met, paying special attention to efficiency.

We emphasize the importance of internal control, especially in public schools, in order to offer a quality education, an offer that can be achieved by eliminating all risks from the level of these public institutions. In order for the requirements of the internal / managerial control standards to be respected and at the same time to exercise a practical meaning for the educational institution, it is necessary to apply the normative framework established by the normative acts, at the level of the Ministry of Education and Scientific Research and of the subordinated units / institutions, as well as and to resort to certain steps to achieve certain functional structures and to elaborate some documents.

The application of the normative framework established by the normative acts, at the level of the Ministry of Education and Scientific Research and of the units/institutions subordinated, it is necessary to resort to certain steps to realize certain functional structures and to elaborate some documents, so that the requirements of the internal control standards/managerial be respected and also exercise a practical sense for the institution.

In the market economy, the educational establishments operate within partnerships, together with certain partners of interests, which they must identify, in order to know and satisfy their interests. When the products and processes of a school meet the needs, requirements but also the expectations of the clients, it can be said that the services offered by it are of quality.

The implementation of the internal/managerial control system is an element of change when the educational institution wishes to become a learning entity. Through this learning process, it can discover the most reasonable solutions for sustainable development, which will lead to a sustainable organization.

The reform of the public financial control system in Romania adopted the transition from a system acquired outside the institution focused on inspections, to an own control system capable of minimizing the risks with which the institution interacts in order to achieve its objectives (<http://www.scmi-educatie.ro/media/2823/GHID-SCMI.pdf>). The internal/managerial control system implies the necessity of implementing and putting into practice an updated type of management at the level of public institutions.

The emergence of internal control in public schools was adopted as a way to improve and perfect managerial responsibility and commitment. At the same time, the implementation of the internal control system gives the public institution the opportunity to acquire mechanisms and support for the good management of the changes that arise in the internal and external environment. The main purpose of the elaboration of the internal management and control standards is the establishment of a reference system against which to evaluate the internal controls developed by the public institutions.

IV. RISKS TO REDUCE RISKS WITH SCI AID

In public entities, the traditional vision of risk management prevails, to a strong extent, focused exclusively on risks or threats. In fact, all human activities, not only economic ones, require taking risks in order to achieve the set goals. The speculative vision of risks is useful both to identify for each activity the risks that may be convenient to take in order to achieve the set goals. Proactive risk management is an important element in achieving goals.

In the context of public management, initially, risk management was established only in relation to certain large areas of intervention, such as, for example, the great risks associated with exceptional atmospheric phenomena and natural disasters, entrusting the civil protection with the task not only to manage such emergencies, but also to prevent and monitor these risks; errors in the health sector (clinical risk); prevention of accidents at work.

Equally, in the field of private business, the focus is on identifying and eliminating, as far as possible, the risks that threaten the current activity of companies. In this regard, the effectiveness of the internal control systems implemented is precisely highlighted in order to remedy the situations created by the occurrence of risks, but especially to prevent, as far as possible, their occurrence.

Basically, governance can be briefly defined as "the way companies are targeted and controlled." In business management, there is an essential link between the following three elements:

- the objectives that the organization aims to achieve;
- risks or events that may adversely affect the pursuit of objectives, evaluated in terms of probability and impact;
- the controls or protections that need to be implemented to prevent/mitigate/contain the negative effects of risky events.

The most advanced theory [2] underlines the importance of risk in the control system: the latest version of the Corporate Governance Code acknowledged and emphasized its centrality (Grosu, 2018). Therefore, the internal

control and risk management system ("SCI-GR") is a crucial point of the governance of a company. Risk is the leitmotif of the control system, which revolves around identifying, evaluating and monitoring corporate risks. Usually, the main reasons behind the introduction of ERM models are (Bingnami, 2014):

- protecting the company's reputation and image;
- strengthening strategic planning processes by using information on risks (threats and opportunities) able to better direct business choices;
- reducing the volatility of the results;
- development of "informed" decision-making processes in a "risk-adjusted" logic;
- loss retention and through a structured mapping process of the events that caused them;
- improving investment opportunities through a risk opportunities approach (risk-oriented) and not just risk mitigation (risk-reducing);
- improving the creditworthiness of the credit rating agencies;
- reducing insurance and coverage costs by identifying more clearly the risk exposure and optimizing the consequences;
- optimization of compliance costs by reducing overlaps and/or duplications;
- responsibility at all levels of the company regarding risk governance by strengthening the culture of risk management and creating greater awareness of management and employees regarding risk exposure and opportunities to be taken advantage of.

Therefore, the task of management is not to avoid the rules, but to impose them, although first of all, to define the perimeter in very precise terms regarding the nature and complexity and, therefore, the quantity and quality of the procedures.

In fact, while in "managerial" companies, complex realities with a highly articulated and highly decentralized organizational structure, the procedures are formalized (written), in "entrepreneurial" companies, instead governed by a centralized logic, with a strong top management/entrepreneur in the decision-making process, these procedures are less formalized or even absent (<https://www.ateneoweb.com/approfondimenti-fiscali/il-sistema-di-controllo-interno.html>).

The importance of the risks, classified into categories and sub-categories, is determined on the basis of the parameters of the probability of occurrence and impact, not only economic, but also considered in terms of market share, competitive advantage and reputation. Through a self-assessment process, the company management can identify the risks attributable to its area of competence and evaluate the effects on the objectives previously defined by the general business and personal directors. The assessment is performed both at an inherent level, i.e. in the absence of mitigation measures, but at a residual level, taking into account, instead, the actions taken to reduce the likelihood of occurrence of the risky event and/or limit its possible negative effects.

V. CONCLUSION

In a fast-moving international context, each company is required to "sine qua non" to compete in the market and to develop, the ability to maintain order and a balance that guarantees shareholders, stakeholders and the market. Essentially, companies are required to have an adequate organizational and control system, capable of preventing deviant, unwanted and above all illegal acts.

The OECD principles also illustrate the Board of Directors' responsibilities towards the company and shareholders; among them, strategic surveillance and control. The Board of Directors is responsible for defining the "tone at the top" within the company, not only directly, but also by appointing and supervising the activity of the management. In fact, a sick organization, without adequate guarantees, infects everything that comes in contact with the virus, therefore, it is necessary to identify antibodies capable of preventing and overcoming any situation and attitude that could compromise the organization itself and, therefore, the market. The problem of the lack or inefficiency of the organization and of the controls pollutes and limits the economic prospects of the companies and therefore we consider that the most suitable remedies must be identified and applied.

Notes

[1] In the 80s of the last century, US Senator Treadway initiated an important research on internal control and its role in the lives of organizations, creating in the USA the Treadway Commission, on the recommendation of which was created the Committee of Sponsoring Organizations of the Treadway Commission, better known then all over the world as the COSO model.

[2] The most relevant is the ERM Model, Enterprise Risk Management, issued in 2004 by the Committee of Sponsoring Organizations, CoSO

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