

SOME CONSIDERATIONS OVER THE INTERNAL CONTROL IN THE CONTEXT OF CURRENT ACCOUNTANCY REGULATIONS

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Through the hereby study we set ourselves on an analysis over the internal control and the ways of implementation of it. The final purpose of our research is represented by the characteristics of the internal control system in the context of current accountancy regulations. The accomplishment of such goal has forced us to research the current literature in the area and also the legal regulations over internal control.

Of course, the accomplishment of such a research was possible only after a pertinent analysis over the opinions expressed in specialty literature regarding this area.

Our research wants to be with a theoretical and applicative character. It is based on analysing the internal control system, the methodology of internal control and the steps of internal control. We express our belief that the implementation of the internal control in a very exact manner comes as an aid to the company management and lead to the accomplishment of managerial objectives and policies.

In what it regards the result of our research there can be drawn the following conclusions: from the legal regulations (OMFP nr. 3055/2009), there is no clear conclusion over the procedures and policies of implementation of internal control applicable to an economical entity; also there are not presented in a detailed way the types (forms) of internal control, being presented in the legal regulations only a classification of them after the time in which they are exercised (before, during or after the finishing of the operations); also in the legal regulations there is developed a certain way of internal control, represented by the financial and accounting internal control, as if the other forms of internal control do not exist; in what regards the components of internal control, these are presented in another way, but similar to already known models of internal control (Coso and Coco); also in the legal regulations there are presented the general objectives of internal control, without developing the differentiate objectives on each for of internal control.

Keywords: internal control, financial and accounting internal control, methodology of internal control, techniques and procedures in internal control, types of internal control.

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1. Introduction

The objective of the current article is to present the author's opinion regarding the modifications imposed to the introduction in the accounting legislation of several theoretical aspects regarding the way of implementation of internal control at the economical entities.

The internal control methodology is defined as being an assembly of inter-dependant activities which, through the usage of some specific procedures and techniques, has as a goal the accomplishment of the knowledge process of a phenomenon or an economic activity through reporting, the definite way of manifesting those to the legal regulations, the norms and instructions through which they were defined.

Through the undergone research, we tried to answer the question, what is the methodology of implementation of internal control and which are the steps of accomplishing the internal control.

The results of the research and the conclusions which we have reached confirms the fact that in the legal regulations (OMFP nr. 3055/2009), there is no clear statement which the procedures and the implementation policies of the internal control applicable to an economic entity are.

2.The Concept of Internal Control

In general, control consists of surveying, analyzing and verifying permanently or periodically a certain activity or situation, in order to follow its course and take measures to master the potential risks, and measures for improvement. Internal control consists of any measure taken by the management with a view towards improving the management of the risks to which the entity is exposed, and towards increasing the probability that the aims and objectives established be fulfilled.

The system of internal control represents the sum total of policies adopted by the management, which contribute to fulfilling managerial objectives, preventing and detecting frauds or errors, to the accuracy and completeness of accounting records, as well as to the preparation in due time of financial-accounting information.

The role of internal control may be summed up in the following:

- limiting non-economical and inefficient operations;
- ensuring the integrity of the patrimony;
- ensuring a rigorous and effective management of activities;
- respecting the directives of the management;
- respecting legal provisions;
- ensuring the reality and accuracy of accounting information.

Internal control presupposes:

- an appropriate information system;
- a hierarchical and defined organizational structure, which would ensure the separation of tasks and the supervision of activities;
- a manual of internal control procedures or internal work norms.

The existence of a rational and correctly applied system of internal control constitutes a serious assumption regarding the reliability and credibility of annual financial records and the concordance between accounting and factual reality.

According to the international audit standards (ISA), internal control is the process conceived and undertaken by those appointed to governance, management and other employees, with the aim of providing reasonable assurance on the accomplishment of objectives regarding the credibility of financial records, the efficiency of the activity and its conformity with the applicable legislation. It follows that this control is conceived and implemented in order to approach identified business risks that could hamper the achievement of any such objective.

National audit norms stipulate that the internal control system consists of an ensemble of policies and procedures, undertaken by the management of a given entity in order to ensure a rigorous and efficient management of activities in said entity.

According to current legislation, internal control represents the ensemble of forms of control undertaken at the level of public entities, including internal audit, established by the budget administrators according to their objectives and legal provisions, in order to ensure the economical, efficient and effective administration of funds, which also include organizational structures, methods and procedures.

3.Regulations regarding internal control

a. The aim of introducing internal control

According to current regulations (OMFP 3055/2009), the internal control of an entity aims at ensuring:

- the conformity with current legislation;

- the implementation of management decisions in an entity;
- the efficiency of the entity's internal activity;
- the reliability of financial information;
- the efficacy of the entity's operations;
- the efficient use of resources;
- the prevention and control of risks regarding the achievement of objectives etc.

Consequently, internal control procedures aim to:

- on the one hand, ensuring the activity of the entity and the personnel behavior complies with the framework of current legislation, with the values, norms and internal rules of the entity;
- on the other hand, to verify if the accounting, financial and transaction information correctly reflects the activity and the situation of the entity.

In the context of consolidated annual financial statements, the area of accounting and financial internal control refers to the organizations belonging within the consolidation.

Internal control is applied throughout the operations undertaken by the entity, as follows:

- a) prior to undertaking operations, on the occasion of budget drafting, which will allow budgetary control after the operations;
- b) during operations, for instance, regarding the percentage of actual production being executed or the percentage of penalties registered;
- c) after finalizing operations, in which case verifying is done, for instance, in order to analyze the profitability of operations and to ascertain conformity or possible anomalies that need to be corrected.

Accounting and financial internal control of the entity is undertaken in order to ensure a management of records and financial supervision of its activities, in order to comply with defined objectives.

Accounting and financial internal control is a major element of internal control. It regards the whole of the processes of obtaining and communicating accounting and financial information, and contributes to its reliability and conformity to legal provisions.

Similar to internal control in general, it relies on a system comprising especially the elaboration and application of policies and procedures in the field, including the system of supervision and control.

Accounting and financial internal control aims at ensuring:

- the conformity of accounting and financial information published with the regulations applicable to it;
- the application of the management's instructions regarding this information;
- the protection of assets;
- the prevention and detection of fraud and accounting or financial irregularities;
- the reliability of information disseminated and used internally with the aim of control, to the extent to which it contributes to elaborating published accounting and financial information;
- the reliability of annual financial statements published and of other information released on the market.

b. The components of internal control

Internal control comprises tightly related components, such as:

- a clear definition of responsibilities, adequate resources and procedures, ways and systems of information, corresponding instruments and practices;
- the internal dissemination of pertinent, reliable information, whose knowledge allows everyone to exercise their responsibilities;
- a system that seeks, on the one hand, to analyze the main risks identifiable with respect to the entity's objectives, and, on the other hand, to ensure the existence of procedures that manage these risks;

- corresponding control activities for each process, conceived so as to reduce possible risks that would affect the accomplishment of goals of the entity;

- a constant surveillance of the internal control apparatus, as well as an examination of its functioning.

The purpose of internal control is to ensure the coherence of objectives, to identify the key factors for success and to communicate to the leadership of the entity, in real time, information on performance and perspective. Regardless of the nature or size of the entity, efforts undertaken for a satisfactory internal control are tied to the application of good practices.

The human resources policy must consider aspects such as the recruiting of qualified personnel, career management, lifelong formation, individual evaluations, employee counseling, promotions and corrective actions.

Control activities are an integral part of the management process, by which the entity seeks to accomplish its objectives. Control regards the application of norms and procedures of internal control, at all hierarchical and functional levels: approval, authorization, verification, the evaluation of operational performance, the securing of assets, the separation of functions.

c. Requirements for implementation

According to accounting rules, one must consider:

- the existence of a manual of accounting policies;
- the existence of application procedures for the manual;
- the existence of controls, which would ensure compliance with the manual;
- knowledge of the accounting and fiscal legislation;
- the undertaking of specific controls regarding weak spots;
- the identification and adequate management of anomalies;
- the adaptation of software to the needs of the entity;
- conformity with accounting regulations;
- ensuring the accuracy and comprehensiveness of accounting records;
- respecting the qualitative features of information in the financial statements, so that it satisfies the needs of users;
- the preparation of information necessary to the group's consolidation;
- defining and distributing elaboration procedures for the consolidated financial statements, to all entities to be consolidated.

d. The evaluation of internal control

The evaluation of internal control starts from elements such as:

- the existence of procedure guides and manuals;
- guaranteeing the evolution of the internal control system;
- ensuring the possibility of access to the system for external control;
- ensuring the possibility of confronting theoretical description with reality.

In the framework of an IT environment, internal control starts from elements such as:

- the existence of a formalized IT strategy, elaborated with the input of operational management;
- the involvement of management and its sensitizing to risks caused or increased by computerization;
- the allocation of resources, which demonstrate the capacity of the system to accomplish its goals;
- the recruiting of personnel qualified to work with the technologies used, and the existence of a continuous learning plan, to allow the upgrading of knowledge.

The specific risk elements brought about by the use of software refer to the evaluation of aspects such as:

- the level of the entity's dependence on its computer system, with an influence of the continuity of usage, when dependence is too elevated;

- the level of confidentiality of information circulated in the system;
- the obligation to respect current fiscal provisions, the protection of persons, intellectual property, or specific regulation of certain areas of activity.

4. The methodology of internal control

The methodology of internal control is defined as an ensemble of interdependent activities that, by the use of specific procedures and techniques, has as a purpose the knowledge of an economic phenomenon or activity by reporting on their concrete manifestation in relation to legal provisions, norms and instructions which define that activity.

The methodology of internal control presupposes the following stages:

- a) The stage of programming the internal control:
 - defining the control program;
 - establishing the objectives and tasks;
- b) the stage of preparing internal control:
 - gathering data;
 - establishing control procedures and techniques to be applied.
- c) the stage of effecting internal control:
 - verifying the accuracy of accounting records in relation to justifying and accounting documents, and to reality;
 - following the authenticity and conformity of the document specific to each operation, in conformity with internal and legal provisions;
 - verifying the conformity of operations with the provisions of internal norms and of current legislation;
 - applying the techniques of internal control: inspection, observation, investigation (the interview, questioning), confirmation, calculation, analytical procedures etc.
- d) the stage of compiling control documents:
 - finding notes;
 - control record or report.
- e) the stage of using the findings in the control documents: any infringement of the legal and internal norms that regulate the management of material assets or money, the contracting and discharge of payments and expenses, the fulfilling of professional duties must engage the full responsibility of the persons involved (manages, accountants, internal control bodies, administrators), which responsibility is formulated legally as disciplinary responsibility, contraventional responsibility, patrimonial responsibility and penal responsibility.

5. Conclusions

Regarding the organization of internal control in the context of current accounting regulations, the following conclusions can be drawn:

- the legal regulations (OMFP no. 3055/2009) do not clearly state what the procedures and implementation policies are for internal control, applicable to an economic entity;
- also, they do not present the types (forms) of internal control in detail, providing only a classification of these according to their time frame (prior, during, and after finalizing operations);
- also, in the legal regulations, only one form of internal control is discussed, that accounting and financial internal control, as if the other forms did not exist.
- regarding the components of internal control, these are presented in a different, but similar, form to the already established models of internal control (COSO and CoCo);
- regarding the modalities of implementing internal control, only some general aspects are presented.

- also, in the legal regulations, the general objectives of internal control are presented, without developing differentiated objectives for each form of internal control;
- regarding the methodology of internal control, we propose that it comprises the stages: programming, preparation, execution, the compiling of control documents, and the use of information gathered in the process of internal control;
- also, in the local regulation, specific procedures and techniques for verifying internal control are not presented. We propose that these be listed as follows: inspection, observation, investigation (interview, questioning), confirmation, calculation, analytical procedures etc.;
- the legal provisions only attribute real importance to one of the components of internal control, that is accounting and financial internal control, hence the detailed delineation of the general objectives of internal control according to the financial and accounting function;
- still, the management of entities should not limit the sphere of applicability of internal control merely to accounting and financial internal control, since the applicability of internal control is much wider than that of accounting and financial internal control;
- regardless of the mode of organizing internal control, the manager, in order to achieve managerial objectives, must choose the most appropriate forms, techniques or procedures of internal control.

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