

## **INTERNAL AUDIT AND MANAGEMENT CONTROL**

**Sorin Domnişoru  
Daniel Goagără  
Sorin Vinătoru  
University of Craiova**

**Abstract:** Noticing that notions such as „control”, „audit” and „review” are „readily” employed in the field language of daily occurrence, as well as in specific regulations, we felt the need of expressing a personal outlook regarding their area of activity. Considering this background, we have focused on the issue of financial control of management related to the internal audit and the management control, in order to reveal, in an accurate way, what meaning should be assigned to each of these notions. According to all existing pros and cons the delimitations included in this paper, we consider that, as long as they are perceived in the sense we have evoked in this paper, the internal audit and the management control, by means of their services of great complexity, may constitute real resources meant to provide the professional management and the eradication of the dilettantism.

### **JEL Classification: M42**

#### 1. Introduction

The term of “control”, being a polysemantic term, may lead to series of ambiguities in communication, as well as in activity, fact that generates numerous misunderstandings and disagreements, even wrong conceptual approaches. One of them consisting in the way in which the management control has been enacted and transposed in practice, applied by the entities of our countries. This nonconformity has become evident once the internal audit has been enforced, implemented and reconsidered. Under these circumstances, our objective is to shed light upon several aspects, such as the positioning, the place and the role of the internal audit and the management control within organizations.

#### 2. Research Methodology

Our research has as a main objective the presentation of the personal opinion considering the status, the place and the role of the internal audit and the management control within organizations, taking into account the existing economic and social background.

The research approach makes allowance for a synthesis and an antithesis of ideas developing this theme, found in the subject area, of regulations issued by different national and international entities. Thus, the rightful positioning of the notion of audit, especially of that of internal audit, will become easier in its relation with any of the contiguous terms, different as purpose, including those reported to the management control.

In order to achieve all followed objectives, we have applied a constructive research methodology meant to identify the endorsements and the elaboration of a discourse supporting the reconsideration of national regulations in the area.

### 3. Reasoning's, endorsements and debates

For starting, we consider as necessary the analysis of several explanations concerning the meanings assigned to the term control and their use. Generally, these are: the control of a situation, of a process, of a structure, of organizations, of the population and so on; the review of the standardization or compliance activity regarding the achievement of a project, process, operation or result, needed to meet pre-established requirements, in order to track down potential infringements.

If we add the notion of audit – defined as a function of monitoring and investigating the operation and the compliance of a process, system or activity – one may notice that things seem to become more complicated, thus the need for certain clarifications. Briefly, when talking about control, the audit and the review may be implicit, however, they do not represent the same substances and it is recommended to avoid any confusion that might appear in speech. The notion of control implies more complexity, involving the creation, the achievement and the operation of systems and relationships, in a certain way. The control procedure, besides the review and the audit processes, also includes the philosophy and the attitude of the board of directors, the staff educational and qualification level, and their morality etc.

Therefore, we suggest the exclusive application of the previously indicated meaning for the notion of review, namely, the evidence of the standardization or of the compliance activity, and for the notion of control, the first meaning pointed out, that of governing, retaining and „directing” a certain process, a group or an activity. The positive meaning of the notion of control does not indicate an „authority” accidentally, chaotically or despotically acquired, it involves an authority achieved according to well determined performance criteria.

From this point of view, the internal audit represents the attribute of those persons who work for managers, and establishes the level of control held by representatives, over managed activities, simultaneously, developing a series of recommendations meant to improve this situation.<sup>1</sup>

It is also important to mention that the relation between the review and the audit, on one hand, and the control, on the other hand, is figured out as parts of the whole. A better achievement of the first two functions, within an organization, enhances the chances for the performance of an optimum (internal) control, but there are more other aspects involved here...

An accurate understanding and application of the three terms – the control, the audit and the review – as we have already mentioned, will facilitate a rightful analysis of the notion of audit, especially that of internal audit, through its relation with any of the contiguous terms, different as purpose, including the case where it is referred to the management control, as well as the interaction between auditors and non-auditors.

Not long ago, there were few people who could make a just distinction between the two functions, the management control and the internal audit. Further on, through this paper, we put across an antithesis, meant to substantiate, in a better manner, the coexistence of the two activities and to clarify their field of activity. Thus, running through the subject area literature<sup>2</sup> and the specific regulations, we have synthesized and formulated the essence of the management control in our opinion, persisting in what it should represent and it does not represent. Due to the fact that the

---

<sup>1</sup> M. Stoian, The Audit as the Attribut of a Performance Management, Administration and Public Management, no 2, Bucharest, 2004, page 10 – 12.

<sup>2</sup> O. Călin, Management Accounting, Tribuna Economică Publishing House, Bucharest 2002, C. Iacob, Management Control Within the Organization, Tribuna Economică Publishing House, Bucharest, 1999; S. Briciu, Managerial Accounting – theory and practice, Economica Publishing House, Bucharest 2006 etc;

notion is complex, an exhaustive definition represents a difficult task. However, the main aspects of the management control consist in:

- its association to the information and its quality;
- prompt monitoring in order to carry out different budgets;
- the performance of numerous contrasts between accessible and available information;
- providing the harmonization of activity-based costs and specific consumption;
- through the information provided to the management, on all levels, it reports immediately the existence of all types of critical findings or ambiguities;
- as a general rule, it „reports” to the management the condition of the dashboard;
- it represents an aggregate dealing with the obtaining, the use and the effective and efficient collection of resources and sources, meant to look for the ways of maximizing the result;
- it provides a permanent effect, linked to all the organization ranges of interest, for providing all necessary information for optimum decisions, in time;
- its contribution also involves the “adjustment” of departments inside an organization;
- it collects and communicates to all responsible departments and to the involved personnel, important data necessary for the assessment of accomplishments or failures;
- finally, it provides the rule over the organization performances, developing a continuous learning of reporting to the achievement of the objectives and of applying adequate means in this sense.

It is also important to mention about the competition existing between the use of the notion of management control and the new notion of controlling, for this reason the two terms may be mistaken for, fact which is less serious than other situations... Within an organization which allows an internal competition, we consider this state of facts as reasonable, but the concerns observed by the controlling activity are strongly different to be individualized. Therefore, this activity involves the analysis and the synthesis of data provided by the accounting system and the environment, their reference to the system objectives and the elaboration of reliable financial reporting necessary for the strategic management, in order to support its planning function; a data re-evaluation for determining abnormal and antisystemic events, casual errors in data processing<sup>3</sup> It depends, to a certain extent, on the size of the entity, and it may be considered as a component of the management control activity, which remains more ample.

The management control, in our point of view, should not be involved within the effective management, neither in the creation of current means. This conclusion derives from the need for complying the task separation principle. For example, this case is concerned with the logical and structural creation of budgets, and not with the variables employed for their elaboration, thus the management control procedure is required to act upon them and to allow their circulation. It is not recommended to apply this procedure in the creation and the elaboration of budgets. It may provide measures to optimize their achievement, whose implementation is approved only by the management. One could notice an obvious overlapping upon the internal audit sphere of activity, but this is not a reason for its exclusion...

On the other hand, for a better understanding, as an essential aspect, it is important to answer the question: what does the internal audit represent? The answer is more complex to be limited to a few phrases. Thus, it suffices to say that the internal audit is not always designated as “internal audit”. There are different designations, depending on customs, cultures, importance, history: general inspection, general control, internal review, internal control, which can cover the same concept. The syntagm internal control represents the most inappropriate synonym for the term of internal audit, which has a large application in this sense. Therefore, there are persons confronting with the

---

<sup>3</sup> A. Dumitrescu, Contabilitate, control și audit, Tribuna Economică, nr. 30/2008, pg. 61

difficulty of understanding this matter and figuring out that the same concept is associated to more terms.

Our paper proposes a brief presentation of this concept, on international and national level. The Institute of Internal Auditors offers the following definition: “the internal audit is an independent and objective activity which provides to an organization, a reasonable assurance implying the degree of control over its operations, and guidance in improving its operations for acquiring performance.

The internal audit supports the organization to achieve its objectives by means of a systematic and methodical assessment of its risk management processes, control processes<sup>4</sup> and enterprise management, being used to improve the business, in regard to efficiency”. This definition represents the subject matter of numerous pro and con comments and interpretations, but it is not necessary to insist upon this issue.<sup>5</sup>

On national level, this definition has been completely implemented, but, as we have noticed, the „background” created for this institution, a very valuable and complex institution continues to remain insufficiently developed. In other words, considering the reality of our country, for the current situation and the perceptible future, we may adopt as an adequate concept: the internal audit as a factor of assessing the sufficiency degree, the liberty or flexibility and the catalytic ability of order within an organization.

Another reason for these confusions is undoubtedly determined by the fact that they had similar evolutions. In our country, this confusion is enhanced by the inappropriate way of legislating the management control which was adopted after the year 1990. Thus, the management control was defined as a subsequent financial control, we might even say excessively „subsequent”, concentrated on the compliance of legal provisions regarding the management, the use and the administration of material and pecuniary means, achieved according to the technical-operative evidence and to financial and accounting records. It is presented as a type of inspection or management review, and consists in checking the compliance with the norms concerning: the existence, the integrity, the observation and the safeguard of estate and assets, owned under any form; the use of assets, the diminution in value of the estate and goods annulling; the performance of cash returns and payments or through bank transfer, in lei or foreign currency, no matter the type of the operation, including the payment of wages and of wage withholding or other obligations towards the employees; the elaboration and the circulation of primary accounting documents and the technical-operative accounting evidence. The review or more exactly, the subsequent financial-accounting inspection is exercised (performed) at least once a year.<sup>6</sup>

The enactment of such a review is considered as favorable for that troubled period of time, but the evolution of the general background, the subject area literature and law-makings revealed conceptual errors regarding this institution. In our opinion, the enacted review is related to what we designate as financial management control, but they represent two different activities. This review stands for the prerogative of inspections...

In the way the internal audit has become the guidance instrument in management from a simple accounting review, for a better control over the operations, in a similar way, the management control has passed from a simple analysis of costs to the budgetary control, and later, to a real

---

<sup>4</sup> În opinia noastră, procesele de control intern sunt cuprinse în cele de management al riscurilor sau cel puțin au o importantă parte comună!

<sup>5</sup> J. Renard, *Internal Audit Theory and Practice*, d' Organisation Publishing House, 4th edition, Paris, 2002, Translation made by the Ministry of Public Finance, Bucharest, 2003, pages 78-79.

<sup>6</sup> V. Greceanu, What does the financial management control represent nowadays and which are its regulatory bodies, *Tribuna Economică* Publishing House, no 12/2006, page 46 and O. State, reply to the mentioned article, *Tribuna Economică* no 21/2006, pages 56-69.

administration process within the enterprise, whose objective was to determine the employees' liability.

Presently, the internal audit and the management control gradually exceed the status of simple functional procedures, forming together a real support in the optimization of the organization.

If the definition varies in time, starting from a budgetary process in order to conclude with a management oriented on benefit centers and/or on objectives and more recently, on liability centers of activity, the main concern remains the relation efficiency-effectiveness,<sup>7</sup> thus, the management control continues to present the following characteristics:

- as an essential aspect of the function constitutes the informational system of the organization regarding the way of managing its own activities,
- it supports the organization performance.

These two attributes allow the identification of similarities, differences and complementarity relations with the internal audit<sup>8</sup>, thus, all statements regarding the out-of-date image of the management control in our country, become more evident.

Among similarities, we mention: both functions are concerned with all the activities of the enterprise, having, thus, a universal character; similarly to the internal auditor, the management controller is not an operational employee: he draws attention, recommends, proposes, limiting his tasks to these activities; the two functions are relatively recent concepts and in full development, determining an increased number of questions and uncertainties; both point out all deviations from predetermined facts; both benefit from or should benefit from an hierarchical affiliation which maintain their autonomous and independent character.

The differences existing between the internal audit and the management control are highly important in the identification and discrimination of the two "institutions". Thus, all differences concerning the objectives are essential in determining the disjunction. The internal audit concerns are well known, namely, a better control over the activities through a diagnosis of internal control devices. The management control usually deals with the information rather than with systems and procedures. In a broad sense, its role consists in providing and maintaining great balances inside an enterprise, compelling attention on existing and predictable nonconformities and recommending the measures necessary for redressing the situation. As one might notice, there exists an insolvable contradiction to all appearances, at first sight they seem to be incompatible, however, they can be determined, each of them, in the same conclusive manner.

Essential liabilities and objectives which form the object of the management control consist in: providing an operative, rightful and opportune running of the informational system, on one hand, and, on the other hand, the elaboration of economic studies and their coordination. For example, an operative evidence of differences registered between estimated sales and sales effectively achieved, including their reference to the detachment's expenses rate and all other information expected by the personnel responsible for the organization's function.

In order to simplify the facts, it is well known that the dashboard of a car displays a series of useful information (such as, driving speed, fuel consumption, warning on the risk of side slipping etc.) essential for the driver in making decisions. On the other hand, by using the car board computer, one may notice and diagnose the reliability of this measuring and informing system of the car „manager". Drawing a parallel between the car and the organization, one may observe that the first function of the car is similar to the management control function within the organization, while the second function represents the internal audit. Anyway, both functions provide a better control: the driver controls the car and the manager controls the organization...

---

<sup>7</sup> E. Țurlea, A. Ștefănescu, Performance of Entities Specific to the Public Sector, Facts and Outlook, Financial Audit, no 5, CAFR Publishing House, Bucharest, 2009, page 20.

<sup>8</sup> J. Renard, Internal Audit Theory and Practice, d' Organisation Publishing House, 4th edition, Paris, 2002, Translation made by the Ministry of Public Finance, Bucharest, 2003, pages 80-83.

An approach of all issues deriving from these two activities<sup>9</sup> may be made in different manners. If the two functions involve a subject area covering all activities, they cannot be considered in a similar manner. The management controller's interest is oriented on results, real or estimated results, therefore, he will take into consideration all expressed or expressible values. The internal audit sphere of activity goes beyond this dimension, fact which can be clearly indicated by activities, such as, security, quality, social relations, environment etc.

While the auditor undertakes different tasks throughout the year, with an occurrence depending on risk, the management controller develops an activity based on the results of the enterprise and on the reporting rate.

The internal audit methodology involves the risk assessment, making decisions concerning the objectives to meet, the identification of system issues, the elaborate causal analysis and the performance of specific focused recommendations etc. Working methods employed by the management controller are original and they cannot be mistaken for former methods: they are determined according to the information provided by the operational personnel (expectations and achievements) and, generally, they have analytic and deductive character.

There is a complementarity relation between the spheres of activity, especially the results and generated effects, which creates a real "promoter" within the organization. Thus, through all its interventions, the internal audit contributes in providing a better management control. As an essential element of the internal control, a better management control leads to the optimization of the whole. Provided with elaborate information transmitted through a reliable internal control system, confirmed by the internal audit, the management control becomes more efficient; the management control also benefits from the assurances provided by the internal audit concerning the information quality. Similarly to other functions, the management control may and should be audited:

- The applied estimated management indicators, are they adequate?
- The received information, is it exhaustive?
- Is there enough time for processing the information?
- Is there any updating of the entry/exit data format?
- The decision making persons, do they take into consideration, in an appropriate way, the provided information resulting from the management control? Etc.

These questions are used by the internal auditor, in order to assess the influence exercised by the management controller upon the developed activity. The choice of a sophisticated reference system complicates the matters, but it should not represent a reason for avoiding it. Besides this recurrent audit assessment, the internal audit reports may and should provide the management controller all relevant information necessary to observe the correct operation of processes, in accordance with stipulated procedures.

The same procedure is applied during the internal audit, where the auditor receives from the management controller the information which constitutes indications meant to direct the auditors' attention upon the weak points considered during the audit task...

Thus, beyond the complementarity relations, there may be observed a real synergy between the two functions for the enterprise benefit, without mistaken them for this reason. In other words, there is no mistake in concluding that these functions exercise a mutual control, one over the other.

#### 4. Conclusions

Unfortunately, national normalizers adopted an outlook over the management control which lacks in performance „piloting” of the organization as final result. Autochthonous regulations approach the management control under the appellative of „financial management control”, and it

---

<sup>9</sup> Ample debates concerning activities or functions...

represents a form of the financial control, with an effect so strayed from the moment of the operations, that it becomes tardy. The concept of management control has not been yet enacted, neither as entitling, nor as essence. An original alternative has been chosen, which represents a mixture made up of a part of the management control and a component of the “on the spot” financial review-inspection..., which, in our opinion, do not correspond to the real needs manifested by dynamic organizations. Do not misunderstand us, we do not propose the exclusion of this review, but we request for its reconsideration, as a necessary condition.

The operational environment specific to entities, the descending tendency of resources, the lack of transparency regarding their use, insufficiently defined objectives, the difficulty in assessing the managerial performance, are just few conditions which unequivocally impose the determination and the application of the two activities within Romanian organizations. The present autochthonous outlook over the management control reduces the reaction speed, the opportunity and the efficiency of managerial actions. This state of facts delays the adoption of decisions meant to adjust processes and systems, which consequently become useless. Is there any sense to mention about the anticipatory and preventive character, which is totally missing? It is regrettable that a component whose presence is more and more required within successful companies and performance public entities could not be operated to its real potential.

We consider that, as long as they are perceived in the sense we have evoked in this paper, the internal audit and the management control, by means of their services of great complexity, may constitute real resources meant to provide the professional management and the eradication of the dilettantism. Moreover, the implementation of both functions for the determined position and role they were created by the international organizational knowledge, may represent a solution for the revival of numerous Romanian entities.

## 5. REFERENCES

1. O. Călin, Management Accounting, Tribuna Economică Publishing House, Bucharest, 2002.
2. S. Briciu, Managerial Accounting – theory and practice, Economica Publishing House, Bucharest, 2006.
3. S. Domnișoru, S. Vînătoru, Audit and Internal Control – conceptual and procedural preliminaries, Sitech Publishing House, Craiova, 2008.
4. Dumitrescu, “Accounting, Control and Audit”, Tribuna Economică Publishing House, no 30, Bucharest, 2008, pp. 61.
5. V. Greceanu, “What does the financial management control represent nowadays and which are its regulatory bodies”, no 12, Bucharest, 2006, pp. 56-69.
6. C. Iacob, Management Control within the Organization, Tribuna Economică Publishing House, Bucharest, 1999.
7. J. Renard, Internal Audit Theory and Practice, d’Organisation Publishing House, 4<sup>th</sup> edition, 2002, Translation made by Ministry of Public Finance, Bucharest, 2003.
8. O. State, “Reply to What does the financial management control represent nowadays?”, Tribuna Economică Publishing House, no 21, Bucharest, 2006.
9. M. Stoian, “The Audit as the Attribute of a Performance Management”, Public Management and Administration, no 2, Bucharest, 2004, pp. 10-12.
10. E. Țurlea, A. Ștefănescu, “Performance of Entities Specific to the Public Sector, Facts and Outlook”, Financial Audit, no 5, CAFR Publishing House, Bucharest, 2009, pp. 20.