

## INTERNAL CONTROL - A USEFUL TOOL FOR ANY MANAGER

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**Abstract:** “A good lead firm, said M.Jr.Harper, is to be master of its future and the future of being master is learning to work with information”. But one can not seriously claim that the accounting information fully meets all the information needs of different user groups, more so when it comes to management accounting whose role is perceived differently by each entity, depending on the purpose and management objectives. Therefore, whether the degree to which the routes to be taken corresponds to the present objectives are achieved by using different monitoring mechanisms combined in a generic way as the control. But what kind of control do we speak? In this context, the purpose of the article is to define the concept of control.

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### 1. INTRODUCTION

At first, controlling an organization was understood as a "control-sanction", which is a form of control which aims to verify the suitability of a predetermined rule regarding the outcome of an action (H.Fayol, 1918). Later, with the expansion of production and labor standardization, control performed in "a budgetary control", moving from the role of supervising post production to that of forecasting the enterprise policy instrument. Mutations in the contemporary business environment (increased complexity of organizations, the emergence of new forms of competition, increasing globalization and deregulation of markets, rapidly changing technologies, etc.) led to the redefinition of the concept of control of the organization in the sense that it is an action seeking dominance or even influencing a system.

Therefore, the role of resource allocation among various departments and activities within an organization, management control has now become a function of pilotage performance.

## 2. SEMANTIC AMBIGUITY OF THE CONCEPT OF CONTROL

Internal control is rooted in ancient history that comes accounting. Quoting Brown, ErwanMusy (2007) states that "the development of social life, and especially the formation of states and kingdoms, they needed to collect taxes, required the keeping of accounts and computations. This need arises from accounts ". The ancients understood very early that an information system is not only useful but also necessary for good management and sound financial management. But it was necessary to ensure the accuracy of the information. In this context, while developing accounting principles and methods, as was necessary to adopt a set of means and measures which ensure the reliability of information and records, in which emerged the concept of control.

The increasing complexity of enterprise management concerns managers in increasing the performance, technology developments in all fields, daily changes that occur rapidly, the emergence of more and more regulations, media involvement in providing information, make today the concept of control domestic still be obscure concept because ambiguities and confusions that are linked to it.

The ambiguity of the concept of internal control comes from the interpretation of translation on it or the way it looked in French theory and practice vis-à-vis the theory and practice English.

In theory and practice French, although the term internal control was translated from English "internal control" in French literature, the term control is defined as a "review, a careful inspection of the correctness of an act / action to audit (le Petit Larousse), while the Anglo-Saxon sense control "is the pursuit, surveillance, something, someone, a detailed verification or coercive power to act as a tool for regulating mechanism" (The New Merriam - Webster Dictionary, 1989).

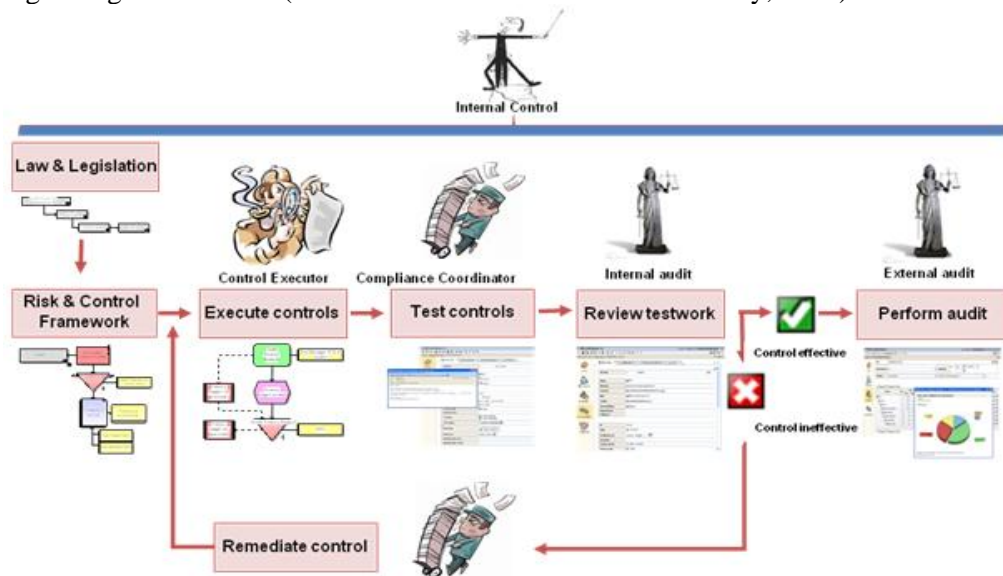


Figure.2.1 The Process of performing internal control

So for Latin countries, internal control requires the verification of the correctness knowledge of phenomena and performing tasks related activities through periodic checks, while English literature and practice in alternative assign this function expression "internal control", whose significance mainly is equivalent to that knowledge, "to keep things under control" to "master / gain control" of phenomena in order to take decisions by management.

The word comes from the expression control the Latin "against rolus" which means "checking a duplicate of the original act"

Internal control is "a process of permanent or periodic analysis of an activity to track its evolution" (DEX, 1975), performed by the management entity and submitted to the Board of Directors, management team and other interested persons and designed to to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations related to the activity under review;
- eliability of financial reporting;
- compliance with applicable laws and regulations.

Therefore, analyzing the concept of control in relation to an organizational entity, it is an attribute of the management of a company, a means of knowledge of organizational reality aimed at final implementation of corrective action (if necessary) which allows him team coordinate the management in terms of efficiency and economic efficiency.

### 3. DELIMITATION CONCEPT OF AUDIT CONTROL CONCEPT

The origin of the term comes from the Latin audit "audio, listening, audivi, auditum = obedience". About *audit* is spoken in ancient times, the term being used on a large scale during Egyptians and Assyrians, but another interpretation of the term being.

Economic history defines several stages of the audit, differentiated by social category ordering audits (consisting of so-called authorizing audit), the auditors and the audit objectives.

In this respect, the current accepted term is used in the recession of 1929, when, to be publicly traded US companies to be audited by external auditors. "Forced" the economic situation to make reliable financial statements and balance sheets to external users, making use of private practice by external auditors. Their objective was to certify the reality of the financial statements in order to avoid errors and fraud.

Since then the role and necessity of the internal audit activity is required for granted, which led to the standardization and recognition of practical activity and internal audit profession in the establishment in 1941 of the Institute of Internal Auditors, to which they are affiliated, today, over 120 countries.

The term was popularized in Europe in the 60s by the Anglo-Saxon practices of auditing. In Romania, after the 90s, the word audit and made entry similar desire to harmonize regulations on international and European level.

Internal audit is a profession who had known over time to cope with various requests from businesses, giving evidence of flexibility. Thus, while the scope of internal audit objectives analysis of known mutations from the financial accounting problems by identifying risks and analyzing their system of internal control, in order to verify their resource efficiency objectives of the company and the fulfillment of these objectives. The purpose of the audit action is the management reporting to the findings resulting from the preparation of the audit report and its advice by appointment corrective and preventive measures for the improvement of internal control deficiencies.

Internal control consists of all forms of control exercised at the public entity, including internal audit, established by management in accordance with its objectives and regulations in order to ensure the administration of funds economically, efficiently and effectively, including organizational structures, methods and procedures (GO no. 119/1999).

In conclusion, even if the accounting aspect was essential in defining the concept of internal control, the notion of control performed by other types of control that were imposed over time, and which today encompasses the notion of internal audit. Thus, today, the notion of internal control is assigned a broader sense, in the sense that it is regarded as a function of the management process.

Therefore, we can say that there was a "transformation" significant over time, meaning the function of control of the management / management became internal control function, which is reflected in the structure and function of internal audit, which in turn is subject to audit (Figure 3.1).



Figure 3.1 Internal audit process

Symbiotic relationship between audit and internal control is that the first is the "subject" and the second - "object" subject matter of the investigation and evaluation.

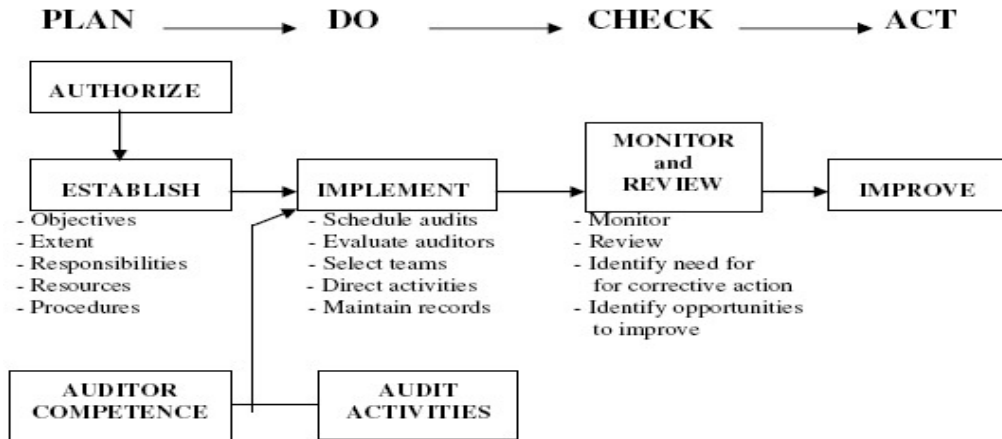


Figure 3.2 Internal/ external audit controls

The essence consists in comparing the audit of internal control issues arising after performing audit activities with those suggested by management as a system default referential thus be possible to determine deviations and applying corrective measures (Zecheru, Basil, 2004)

On this basis are formulated audit findings, in turn, will compete in coagulation conclusions on the quality of decisions / activities / documents subject to internal control and audit formulate recommendations as a remedy for contraca- ing causes that generated nonconformities and deficiencies found.

In any case, the exercise of the internal control function within a company is not a guarantee of profitability and economic efficiency of an enterprise, in conditions of social and political factors in constant change.

From this point of view, reiterate the role of major importance that it can perform internal audit within a company that is afforded by the credibility of this function by external users, representing one of objective verification tools genuine economic performance of the activity of a company .

At the same time, we can say that the exercise function in the absence of internal control audit is not a guarantee of carrying out an activity economically profitable, internal audit is a function Periodicals (in relation to the activities of a volume can entitate- be permanent), whose frequency is inversely proportional to the risks associated activities and departments heard.

#### 4. CONCERNS INTERNATIONAL AND NATIONAL BODIES IN THE DEFINITION OF INTERNAL CONTROL

There are many definitions of the concept of "internal control", most of them at the level of professional organizations of accountants and auditors institutions.

In literature, the term "internal control" knows different definitions:

- "As a system designed to provide reasonable assurance regarding the achievement of management objectives" (LoebbeckeArens, 2003);

- "As forms of control of the assembly in the levels of entities, including internal audit, established by management in achieving the objectives. Internal controls include organizational structures, methods and procedures implemented "to achieve objectives" (Joel M., 2004);

- "Like all control systems, financial and otherwise, implemented by management in order to conduct company business in an orderly and effective manner, to ensure that management policies to protect assets and to ensure the the accuracy and completeness of information possible "(Advisory Committee of Accountancy, 1978);

- "As the format of the Plan Organization and of all methods and procedures adopted within an entity to ensure objectives" (American Institute of Certified Public Accountants, 1978);

- "Like all devices / me canismelor implemented by leaders at all levels to have control over the operation of activities in that field" (JacuesRenard, 2003);

- "Like all security measures that contribute to the control of their company" (Order of Chartered Accountants in France, 1977);

National Audit Rules (NNA) stipulates that "The internal control system consists of a policies and procedures as whole operated by the management of an entity in view of ensuring a rigorous and effective management of the enterprise activities. These procedures involve compliance policy / management decisions, asset protection, prevent and detect fraud and error, the accuracy and completeness of accounting records and providing credible information ".<sup>59</sup>

International Standard on Auditing (ISA) No. 315 entitled "Understanding the Entity and Its Environment and Assessing Risks of Material Misstatement" remembers "Internal control is the process designed and effected by those charged with governance, management, and other personnel to provide a reasonable assurance of achieving the objectives, about the credibility of financial reporting, efficiency of operations and compliance with applicable law. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives. "(IFAC).

COSO<sup>60</sup> introduces the concept of "internal control" defining "internal control" as "a process (set of procedures), implemented , by the Board of Directors, management and staff of an organization designed to provide reasonable assurance regarding objectives ".

I tried to recall the various definitions of the concept of "internal control", as defined in the literature, to emphasize once again that, today, has two meanings:

- *In the traditional sense*, "control" means *"to verify, inspect or to establish responsibilities, delegate"*;

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<sup>59</sup>National Audit Rules (NNA) pose adaptation of International Standards on Auditing and Related Services, efectuatăde the Body of Expert and Licensed Accountants of Romania. These rules were published in CECCAR Publishing House, Bucharest, 1999.

<sup>60</sup> Committee of Sponsoring Organizations of the Treadway Commission (COSO) US published reference works in the field of internal control.

- In the modern sense, "control" means "to rule, to lead or dominate".

##### 5. THE ROLE OF INTERNAL CONTROL IN THE PREVENTION AND CONTROL OF RISKS

- "It's impossible that the improbable will never happen." Emil Gumbel (Il est impossible que l'improbable n'arrive jamais, in Statistics of Extremes, 1958.)
- "All courses of action are risky, so prudence is not in avoiding danger (it's impossible), but calculating risk and acting decisively. Make mistakes of ambition and not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer." Niccolo Machiavelli, The Prince
- "If you don't make mistakes, you're not working on hard enough problems. And that's a big mistake." —Frank Wilczek 2004 Nobel Prize winner in physics .

As you play the phrases above, regarded as semantic aspect, "risk is a choice, not a fate" (KH Spencer Pickett, 2003). Incidentally, the word risk is derived from the Italian origin "RISICARE" which means "to dare". However, the term risk is very popular in current times daily, tending to be of danger loss.

In any activity that operate there are risks, they are manifest in one way or another, in the negative sense of uncertainty, threat or obstacle positively opportunity.

In these circumstances, the manager is required to undertake a risk analysis that is subject of the business its because both within the company and in the business and the market can manifest acts risks impacting business objectives, which is economically inefficient resulting losses.

From this point of view, risk management (Figure 5.1.) Is one of the objectives of internal control policy adopted by the company, in order to achieve performance goals and improving the causes, therefore minimizing risks by adopting a reactive management style events likely event to generate favorable risk situations, in order to achieve performance goals and creating added value.



Figure 5.1 Risk management Framework

"It is better to prevent than to declare a *fait accompli*", is one of the slogans that guide proactive management, which implies to identify potential threats before they manifest, given the risks faced before, but unmanaged properly shows developing trend in the future.

Undoubtedly, knowledge of the real risk is a necessary thing to be defined, but it is not enough to achieve a performance management system. Implementing a proactive management system that takes into account the likely future threats, obliged to introduce a policy forecast, which tries to identify changes depending on the environment in which it operates, potential risks. This is a category that now their ranks according to the objectives in a cost-effective and applying a cost-benefit analysis or effort-outcome.

In this way, we can say that risk management is one of the tools at hand, that internal control provide guarantees of achieving economic performance, as one of the important attributes of this function is the management of threats coming from internal and external environment of enterprise.

In this respect, credibility given to internal control can not exist outside of a plan adoption and consolidation of sound risk management, proactively.

## 6. CONCLUSIONS

The notion of internal control is not new. The concept has existed since ancient times and experienced a complex definition with the advent of the taxation systems and the development of trade between various entities.

Relative to the current economic environment in which it operates, the activity of an enterprise is subject to a continuous process of change and adaptation to market conditions, the actions of the entity being dictated by management decisions. Therefore, internal control has emerged as a necessity, representing an action that allows management to manage risk issue that confronts the work of his organization in achieving the objectives set, far exceeding the scope of information provided by management accounting.

Analyzed in terms of market behavior, the concept of risk as probable event occurs precisely because, at some point, there are several ways of addressing a problem. From this point of view, risk management addresses the issue of identifying, assessing, monitoring and managing events with potential negative impact on performance goals.

I noticed also that the experience of recent years has led managers recognize the importance of risk management knowledge so your interest in the company's internal control between activities in business management, has become the undisputed and, in a conference that treat this topic Christian Fontanel recognized this, saying: "internal control is inherent managerial act."

However, the concept is difficult to address in order to find a clear definition and can create confusion in the sphere of non-specialists. At first glance, the notion of

"Internal control" is but a word-for-word translation of the English concept of "internal control", so the term should be defined, rather, the ultimate goal of this



activity. However, not to be confused with the notion of audit is a tool that brings transparency contributes to strengthening the organizational culture of an entity and provides a degree of control over the activity through regular and systematic evaluations, resulting in proposals made after the evaluation process management risk management, control and governance of the organization. (International Standards for Internal Audit).In order to adopt a reactive behavior and forecast.

For a manager in our zilele when the concept of management control end many facets, is a challenge choosing a reference system in which to define clear indicators by which to make decisions. Therefore, in our opinion, the manager has the obligation to create and maintain a healthy internal control system thereby providing a credible his organization.

Undoubtedly, we can say that the responsibility of implementing the risk management system shall also be the responsibility of management, which allows firms to know the risks under whose incidence between their activities and to coordinate in a more tenacious business activity, being able a reactive attitude towards risks likely to affect the activity and limits its exposure to risk.

On the other hand, even if the internal control mechanism acts as a management related and helpful in evaluating the possible risks of exposure is manifested in the development of activities likely to affect economic performance, however, this tool is not a guarantee against failure of activities in the entity that may eventually lead to bankruptcy.

Therefore, our view is that the concept of internal control must be understood and analyzed in relation to the evolution of risks to which the entity is exposed, given that today, organizations acting in an unstable environment characterized by unpredictable developments over time, where information is uncertain, on a day to day, as the internal control function is a link between the strategies defined in the management and what happens at the operational level, thereby facilitating decision making.

The modern economic theories argue that the concept of "internal control" must be examined closely related to notions of "corporate governance" or in a broader concept, "risk management", which in turn evolved according to risks which the entity is exposed, and that in the absence of corresponding reactive attitudes can lead to instability and financial turbulence, likely to destabilize economic activity .

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