

## ISSUES REGARDING THE MANAGEMENT OF INTERNAL CONTROL/ MANAGERIAL AND COMBATING SOME NEGATIVE EFFECTS IN ROMANIAN PUBLIC INSTITUTIONS' ACTIVITY

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The paper aims to analyze the importance and impact of the management of internal control/ managerial in Romanian public institutions, as well as the consequences arising as a result of not implementing it. It also analyzed the legal framework governing the internal control/managerial and the main conclusions issued by the Romanian Court of Accounts on the status of its implementation in Romanian public institutions. At the same time, it is stressed the role of management carried out by heads of public institutions in terms of combating the negative effects that have a direct impact on their activity.

**Keywords:** management, public institution, implementation, internal control, risks, combating.

**JEL Code :** P34, P35.

### 1. Introduction

Romania's status as an EU member state automatically imply compliance with all commitments arising from such status, including the reform of public finances.

In 2009 the European Commission organized a conference which had as debate theme Public Internal Financial Control, whose main conclusion was that most of the 12 new member states of the European Union have not complied with the requirements in terms of further development of public internal financial control. One of the consequences arising from the interruption process of developing this type of control is represented by a number of risks, which may have negative effects in Romanian public institutions' activity. An important role in this process has the management of public institutions, by directly involving in the dynamic process represented by the internal control, in order to identify and address risks that may affect the normal carry out of activity. A poor management on internal control area in public institutions can lead in time to aggravated fraud and corruption phenomena, unethical behavior, lack of transparency, improper management of public funds, etc.

### 2. The regulatory framework of the system of internal control/managerial in Romania

The main instrument for regulating the system of internal control/managerial in Romania is the *Order No.946/2005 approving the Code of internal control/managerial, including the internal control standards/managerial on public entities and developing of managerial internal control systems*, issued by the Ministry of Public Finances.

Through this Order, each public institution manager in Romania is required to dispose, given the institution's organizational characteristics that he leads, the necessary measures in order to draft and / or develop the internal control/managerial system and the formalized procedures on activities.

The manager's responsibilities regarding this control system are multiple, assuming the role of establishing the internal structure with the necessary duties, and drafting the annual report on internal control system/managerial existing within the institution that he leads, this report being the form of assuming the managerial responsibility on the five components of internal control / managerial:

- control environment
- risks' assessment

- information and communication
- control activities
- monitoring

From the five components listed above, the most important are those related to the control environment, performance and risk management and control activities, because the presence of some deficiencies or weaknesses of one of these components may affect the institution's work extremely serious. The role of management is to maintain an effective internal control/managerial, by implementing operational procedures in each structure within the institution and also maintain an internal audit structure totally independent in the exercise of its activity, with a role on objective evaluation of the internal control/managerial system. This internal audit structure must be subordinated to the manager of the public institution, but without this to affect the independence and objectivity of its activities. The regulatory framework on internal control/managerial system is complemented by a series of laws relating specifically to the control, internal audit and preventive financial control.

### 3. The main risks associated with an inadequate implementation of a system of internal control/managerial.

An important component in terms of risk management at the level of an institution is the presence of the Risk Register on areas of activity, which must be completed and updated whenever necessary. In this way, it ensures the identification of possible risks, some new, countermeasures and risks management. Among the most significant risks that may affect significantly the activity of a public institution is the risk of fraud. The presence of a weak internal control and a poor management can be extremely dangerous for the work of public institutions, which are the main causes favoring the occurrence of financial fraud, a very negative phenomenon that accumulated in several institutions, can lead to real problems of macroeconomic nature related to a country's public finances, sometimes even affecting its economic stability.

Another phenomenon that may occur alone or accompanied by fraud is the phenomenon of corruption. The direct beneficiary of the phenomenon of corruption is the organized crime which, with the help of some corrupt officials and in the absence of an effective and sound internal control, may obtain in many cases the influence of the authorities at different levels.

Other risks that arise in the absence of internal control/managerial or as a result of malfunction of it are related to the failure of properly measurement of performance in the institution, inadequate objectives which have undesirable results, lack of interest on the state of IT technology used by institution that can affect its development, failure of projects with consequent increases in costs, etc. Once identified these risks, the answer should intervene immediately, through appropriate mechanisms to ensure effective management of the negative situation occurred.

### 4. The current situation regarding the implementation of internal control/ managerial in Romanian public institutions

The Law no. 94/1992 on the organization and functioning of the Romanian Court of Accounts, gives the Court, as the supreme audit institution, the task of assessing the activity of financial control and internal audit in its audit missions to public entities falling in its sphere of activity.

Following the recommendations issued by the Directorate General for Budget of the European Commission and as a member of INTOSAI (International Organisation of Supreme Audit Institutions) starting from 2011 one of the goals of the Romanian Court of Auditors concerning its control and audit work was to assess how is organized, implemented and maintained the internal control/managerial system in public institutions.

Following this assessment, the situation in the year 2011 is presented in Table. 1 as follows:

**Table no. 1**

Ratings awarded by the Romanian Court of Accounts on internal control / managerial system in 2011				
Entities	Unsatisfactory	Satisfactory	Good	Very good
Central public administration	106	215	331	26
Local public administration	515	520	283	11
<b>Total</b>	<b>621</b>	<b>735</b>	<b>614</b>	<b>37</b>

Source: [http://discutii.mfinante.ro/static/10/Mfp/control\\_prev/programe/Rez\\_E\\_voting\\_Conf\\_2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/control_prev/programe/Rez_E_voting_Conf_2012.pdf)

In the case of the 2007 ratings awarded to the internal control/management system of the entities at central and local level, the weight of "unsatisfactory" rate given is 30%, which clearly demonstrates a lack of interest from managers of public institutions on the identification of possible irregularities in early stage that may arise in the activity of the institution. This is a very important risk because it can generate or facilitate the manifestation of corruption within the institution. In order to combat the risk of corruption is necessary to implement mechanisms to discourage such dangerous practices.

To this risk of corruption can it be added any other risks that come from outside of the institution which, combined, may influence extremely negative the activity of the institution.

Table no. 2

Ratings awarded by the Romanian Court of Accounts on internal control / managerial system in 2012				
Entities	Unsatisfactory	Satisfactory	Good	Very good
Central public administration	40	130	333	47
Local public administration	469	551	302	6
<b>Total</b>	<b>509</b>	<b>681</b>	<b>635</b>	<b>53</b>

Source: [http://discutii.mfinante.ro/static/10/Mfp/control\\_prev/programe/Rez\\_E\\_voting\\_Conf\\_2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/control_prev/programe/Rez_E_voting_Conf_2012.pdf)

In the year 2012, due to the implementation of the measures issued by the Romanian Court of Accounts as a result of its audit and control activities to the public institutions, has been noted an improvement in the number of ratings "very good" given by the auditors of the Romanian Court of Accounts as a result of the evaluation of the internal control/ managerial system, from 37 ratings given in 2011 to 53 in 2012.

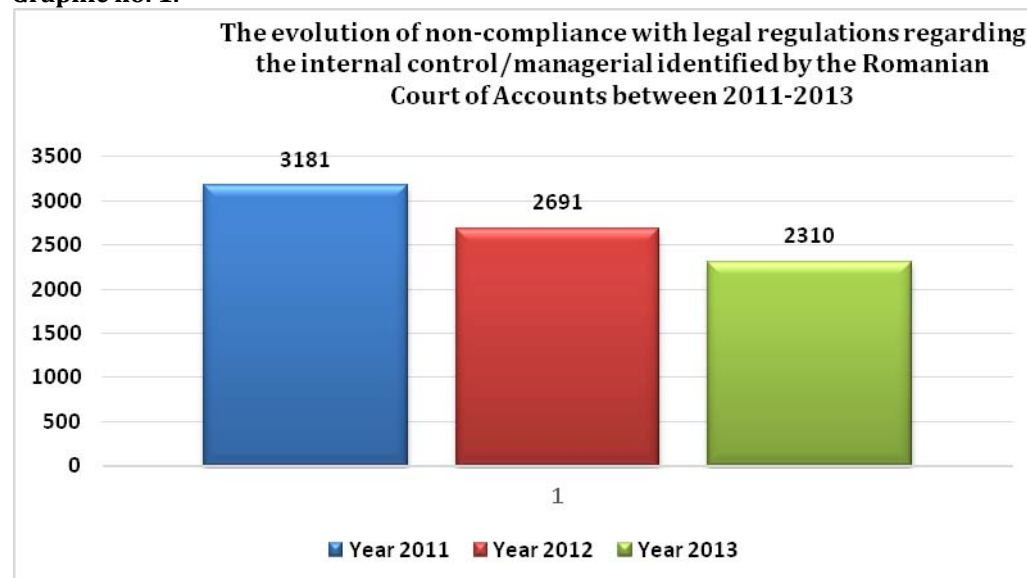
However, there was a significant decrease in the number of ratings "unsatisfactory" extended from 621 in 2011 to 509 in 2012.

The most important changes have taken place at local government level, the lower ratings of "unsatisfactory" being reduced by 50%, from 106 in 2011 to 40 given in 2012.

The latest data on the evolution of internal control/ managerial system can be found in the Public Report on 2013 of the Romanian Court of Accounts .

The situation is represented in the graphic no 1.

Graphic no. 1.



Source:

[http://discutii.mfinante.ro/static/10/Mfp/control\\_prev/programe/Rez\\_E\\_voting\\_Conf\\_2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/control_prev/programe/Rez_E_voting_Conf_2012.pdf)

As can be seen, there is a significant decrease in non-compliance with legal regulations cases on internal control/managerial, from 3181 cases identified in 2011 to 2310 identified in 2013.

### 5. The situation in the European Union on the internal control systems

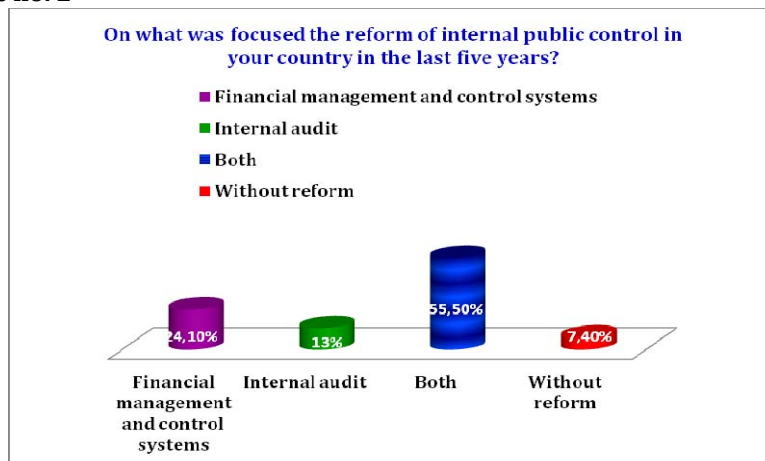
The Conference from 2009 on the development of public internal financial control has not remained unanswered. Based on its conclusions, in 2012 there was a second Conference held in Brussels, bringing together over 90 experts from ministries of finance of Member States, representatives of the European Commission services and other bodies and representatives of candidate countries.

This Conference made the official presentation of a Compendium containing mainly the descriptions of the internal control systems in the Member States. The main advantage of this document is to identify good practices in other Member States in the field of public internal control, especially in the area of revenues and expenditures, very important for the economy of a country.

During the works were carried out several working groups, in which the discussions have focused on different areas, including accountability for managers, promoting the concept of managerial accountability and measuring the implementation of managerial responsibility.

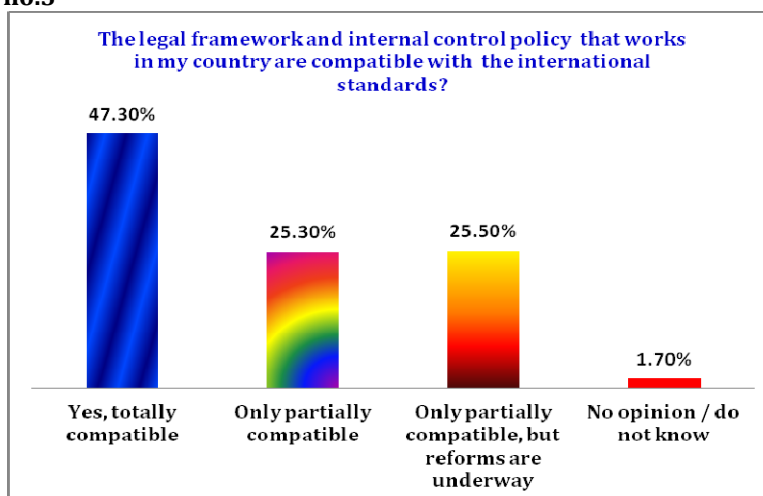
Also, during this conference was made an electronic voting session, where the participants expressed their views on various issues relating to the internal control. Among the questions addressed in the electronic voting procedure can be found the following:

**Graphic no. 2**



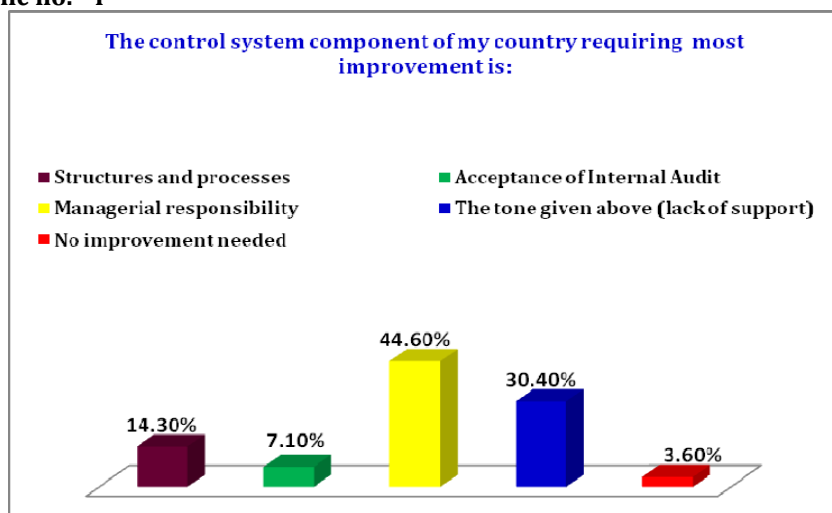
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**Graphic no.3**



Source: [http://discutii.mfinante.ro/static/10/Mfp/control\\_prev/programe/Rez\\_E\\_voting\\_Conf\\_2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/control_prev/programe/Rez_E_voting_Conf_2012.pdf)

Graphic no. 4



Source: [http://discutii.mfinante.ro/static/10/Mfp/control\\_prev/programe/Rez\\_E\\_voting\\_Conf\\_2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/control_prev/programe/Rez_E_voting_Conf_2012.pdf)

From the analysis of graphs above we can see that the Member States simultaneously focused on the development of financial management, internal control and audit systems, 55% of respondents saying that in their countries the reform of the two components is increased.

Iso, almost half of the respondents said that the internal control policy and the legal framework is consistent with international standards in the Member States, which shows a uniform practice these standards.

The most important conclusion is that managerial responsibility is the component that requires the most improvement in internal control systems of the Member States, which underlines once again the importance of the role of management in this area.

## 6. Conclusions

The internal control/ managerial system has a very important role, through its impact on the work of public institutions worldwide.

The effects of a proper implementation in the public institutions leads to a greater confidence in state's institutions, with direct consequences on the growth of foreign direct investment in the state. A state with a weak public institutions, without appropriate internal controls implemented, in which are identified hazardous phenomena, such as fraud and corruption, will not ever win the investors' confidence, creating the impression of instability.

The role of the management of internal control/ managerial system is particularly important, especially in times of economic and financial crisis, as was the latest in 2008, when responsibility on managers of public institutions, in particular the management and use of public funds and public property increases, in order to avoid economic slippages that can seriously affect a state's economy.

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