

## The Perception of the Internal Managerial Control System – the Case of the Romanian Public Entities

State Violeta  
Tănase Loredana Cristina  
"Valahia" University of Targoviste  
[viostate@yahoo.com](mailto:viostate@yahoo.com)  
[loredanatanase80@yahoo.com](mailto:loredanatanase80@yahoo.com)  
Voinea Cristina Maria  
[voinea\\_cristina\\_maria@yahoo.com](mailto:voinea_cristina_maria@yahoo.com)

### Abstract

*In order to control the management of activities for achieve the objectives, the managers at all levels of the hierarchy must have relevant information on the organization's events and activities, in an appropriate form and detail. Thus, they can assume their responsibilities. In this context, we considered that important of organizing and implementing in the public entities of the system of internal managerial control. This system provides reasonable assurance that the organization's objectives will be achieved in terms of efficiency, efficacy, economically. For this purpose, we have carried out a documentary research of both specialized papers and the applicable regulations in force in Romania in the field of managerial internal control within the public entities, as well as empirical research. Thus, in a conjunct survey, we conducted a survey on the implementation of the managerial internal control system in different public institutions in Romania with the central objective to highlight the perception of the staff involved in this tool at the disposal of the management.*

**Key words:** internal control, objective, responsibility, difficulty, result

**J.E.L. classification:** M42, M48

### 1. Introduction

One of the main objectives of any organization is to have a management that implements the policies, programs and projects adopted to achieve the mission of the organization through the rational use of resources (mostly limited) and the same time to meet the requirements of stakeholders.

Achieving the mission of public entities depends on the objectives set as a final result of the developed strategies and planned activities and, at the same time, the climate created within the organization that must be favourable to ensuring the performance and quality of the services provided. Objectives define both what needs to be done and when their assessment and quantification becomes possible.

In order to achieve the objectives, it is necessary for its management to implement appropriate operational devices, in compliance with applicable laws and regulations. Such a device is managerial internal control which, through specific procedures, ensures the measurement, management and supervision of resources in order to create premises favourable to the achievement of the organization's objectives.

### 2. The concept of internal managerial control

The etymology of the word control derives from the Latin expression "contra rolus" which means checking a duplicate act made after an original one. Control is a "permanent or regular

analysis of an activity, a situation, to follow its course and to take improvement measures" [Romanian Court of Accounts, 2011].

It follows from the practice that the control operation "is an attribute of management, a means of analysing reality and correcting errors, the most common sense associated with control is verification, which is often associated with the knowledge activity that will allow management to coordinate the activities of the organization as economically and efficiently as possible "[Ghiță E., 2007].

By the implementation of a managerial internal control system, managers ensure that resources are obtained and used with economy, efficiency and effectiveness to achieve the objectives. The overall objective of internal control is to "ensure the continuity of the entity in achieving its objectives" [Voinea C.M., 2016].

The applicable legislation in Romania in the field of managerial internal control for the management of public funds in an economically, efficiently and effectively manner specifies that public entities must act in such a way as to ensure:

- "minimizing the cost of resources allocated to achieve the expected results of an activity, while maintaining the appropriate quality of these results -
- the degree of achievement of the scheduled objectives for each activity and the relationship between the projected effect and the actual outcome of the activity concerned -
- maximizing the results of an activity in relation to the resources used - efficiency. "[O.S.G.G. no. 200, 2016).

Identifying and setting goals is one of the determinants of the design and implementation of a managerial internal control system within a public entity so that it provides management with reasonable assurance that the objectives will be achieved to actually confirm the manager's expectations by using specific procedures, techniques and tools. The objectives of the public entity can be grouped into three categories, according to the Code of managerial internal control approved by O.S.G.G no. 400/2015 modified and completed by O.S.G.G no. 200/2016:

1. Effectiveness and efficiency of f (objectives related to the public entity's goals and efficient use of resources as well as the protection of inadequate public use or loss of public resource resources).

2. Reliability of internal and external information (objectives related to maintaining appropriate accounting, the reliability of information used in the public entity or disseminated to third parties, and the protection of documents from the avoidance of fraud and distortion of results).

3. Compliance with internal laws, regulations and policies (objectives to ensure that public entity activities are carried out in accordance with statutory and regulatory obligations, with due regard for internal policies).

In order to achieve the objectives, a balance must be struck between tasks, competence (delegated decision-making authority) and responsibilities (the obligation to achieve the objectives) and procedures defined. General objectives are the targets to which each person will focus, from the tip to the hierarchical pyramid, for whose touch "it is important for the staff to know them and to understand the role they have to fulfil in achieving these global goals" [M.F.P. -UCAAPI, 2005].

### **3. The empirical study on the perception of the system of internal managerial control within the Romanian public entities**

#### **3.1 Methodological elements regarding the realization of empirical research**

The issue of control and supervision of the economy and, in particular, the way in which public funds are used is topical, as internal controls are an essential element in all managerial, financial or operational processes. In order to promote efficient public sector management, public internal financial control has been implemented, including: internal management control system, internal audit, coordination and harmonization of all components. Internal public control has always existed and has lately been developed as a recognized and widely used concept using elements of the modern management system, with initiatives related to the introduction and promotion of the public internal control system.

The issue of research is represented by the need to implement within the public institutions the system of internal managerial control, a component of the public internal financial control, in order to provide the relevant information regarding the extent to which the established objectives have been achieved and the expected results have been achieved. The purpose of our empirical research is to show that the internal managerial control system has a decisive impact on achieving the objectives of public entities, viewed from the perspective of those who need to apply it.

The starting point of our scientific approach is the question: Is internal control recognized / perceived in public entities as a process designed to increase the performance of entities?

Taking into account the research issue and looking to answer the research question we have formulated the following assumptions:

Hypothesis no. 1. The internal managerial control system is an essential component of management by objectives, namely a planning and control system that includes, on the one hand, action-setting and planning to achieve them, and which process self-monitoring and a periodic review system, followed by an evaluation of the results.

Hypothesis no. 2. Developing an internal control system is perceived as a process that involves improving performance and governance, rather than introducing a new, additional system.

The empirical research was realized in a conjuncture survey conducted at public institutions through a questionnaire comprising 13 questions, grouped into two categories:

1. General questions designed to highlight the characteristics of the sample of respondents;
2. Specific questions designed in accordance with the issues addressed and the hypotheses formulated to draw conclusions about the perception of the system of internal managerial control implemented within the public entities concerned.

### 3.2 Results of empirical research

The questionnaire was applied to a sample of 56 respondents, employees of public institutions in the field of: public administration, namely territorial administrative units - 58,92%, education - 25%, health - 7,14%, culture - 7,14 %, research - 1.80%, which operates on the territory of two districts, Prahova and Dâmbovița.

Respondents, employees of the above-mentioned entities, account for 66.10% of the execution staff category, the remaining 33.90% being management personnel. Only one respondent has secondary education, the remaining 55 have higher education, namely 40 university studies (71.42%), 10 postgraduate studies (17.85%) and 5 doctoral studies (8.95%). Most of them are trained in the economic field, as shown in the table below:

*Table no. 1 Sample structure by field of training*

Field	Economic	Juridical	Technical	Socio-human	Total
Number of persons	35	9	6	6	56
Weight	62,51%	16,07%	10,71%	10,71%	100%

Source: author's processing

From the point of view of the experience in the field in which they operate, the structure of the sample is as follows:

*Table no. 2 Sample structure according to field experience*

Experience	1-5 years	5-10 years	10-15 years	15-25 years	Over 25 years	Total
Number of persons	17	8	13	14	4	56
Weight	30,36%	14,29%	23,21%	25,00%	7,14%	100%

Source: author's processing

Higher professional training, corroborated with the professional experience of respondents in the field of activity within the public entity are elements that show their ability to provide pertinent answers and to formulate relevant views on the subject of the study, with 55,35% of them having an experience of more than 10 years.

To the question "Is the internal managerial control system in your institution implemented?", only 51 of the respondents answered yes, others saying they did not know the situation. A total of 38 respondents out of 51 declared that they had or have responsibilities / responsibilities / tasks regarding the organization and implementation of the managerial internal control system.

Considering the first hypothesis that the management internal control system is an essential component of objective management, the respondents were asked for an opinion on the role of the managerial internal control system for achieving the objectives of the public entity in which they operate. They were also asked to highlight the importance of achieving the specific objectives of the managerial internal control system, which is appreciated in relation to the contribution made to achieving the objectives of the public entity.

*Table no. 3 Assessing the role of managerial internal control to achieve the objectives of the public entity*

Mark	Insignificant	Significant	Determinant	Does not influence	Total
Number of answers	1	19	16	2	38
Weight	2,63%	50,00%	42,10%	5,27%	100

Source: author's processing

Appreciating over 90% as a significant and determinant role of the internal managerial control system to achieve the objectives of the public entity highlights the fact that respondents are aware that the objectives, once established, are not achieved by themselves. Several actions are needed to reach a goal, and action needs to be set for each action. Objectives and actions to achieve them should be monitored so that when deviations from the program occur they can analyse the cause and initiate corrective actions so that they can be done at the set time and resources.

All these requirements are ensured by a coherent, efficient internal management system, adapted to the particularities of each public entity, with realistic objectives, clearly formulated and brought to the attention of those involved in their achievement.

*Table no. 4 Ratings given to the importance of achieving the objectives of the internal managerial control system*

Objectives category	Not at all important	Slow important	Important	Very important	Strong important	Total
Objectives related to the utilization in conditions of economy, efficiency and effectiveness of resources	0	1	7	7	23	38
Objectives regarding the protection of the entity's resources against inappropriate use	0	1	7	13	17	38
Objectives on keeping appropriate accounting	0	1	2	14	21	38
Objectives related to the reliability of internal and external information used by the entity	0	1	6	16	15	38
Objectives on the protection of information and documents	0	0	5	12	21	38
Objectives related to ensuring that the entity's activities are conducted in accordance with applicable law	0	0	4	9	25	38

Source: author's processing

As can be seen in the table above, all 6 categories of objectives are considered to be very and especially important by an average of over 80% of respondents. This is because the manager of the public entity through the internal management control system has the possibility to:

- ensure that performance is monitored for each objective and activity through relevant quantitative and qualitative indicators, including in terms of economy, efficiency and effectiveness;
- assess performance, identify deviations from objectives and take corrective action;
- draw up plans to align the activities necessary to achieve the objectives with the maximum possible resources to allocate, so that the risks likely to affect the achievement of the objectives of the entity are minimal;
- ensure the good running of processes and the exercise of adequate internal control forms that guaranties that data and related information used for the preparation of annual accounts and financial statements are accurate, complete and timely;
- develop an effective internal and external communication system so that management and employees can effectively and efficiently perform their tasks and complete information in a timely manner to users.

In order to express their opinion on the characteristics of the internal control system implemented in the public entity in which it operates, most of the responses indicated that it is adapted to the size, complexity and environment of the entity, targeting all levels of management and activities, thus creating the premises of a reasonable assurance that the entity's objectives will be attained.

*Table no. 5 Appreciation on the characteristics of the system of internal managerial control*

<b>Characteristic</b>	<b>Number of appreciations</b>	<b>%</b>
It is adapted to the size, complexity and environment of the entity	26	32,91
Targets all levels of leadership and activities	23	29,11
The costs of applying internal managerial control are inferior to the benefits obtained	8	10,13
Provides reasonable assurance that the entity's objectives will be achieved	21	26,58
Others: ensure staff accountability, increased attention to roles and responsibilities of employees, ensure traceability of actions, activities, deviations	1	1,27
Total	79	100

*Source:* author's processing

It is to remark that only 8 of the 38 respondents considered that applying the internal management control system requires lower costs than the benefits achieved. Indeed, the implementation of such a system involves the consumption of human, material and financial resources which, depending on the size of the entity's complexity and environment, can reach high levels. The challenge for each public entity leader is to find the best way to allocate these resources, to improve the current systems. In this process, a series of inherent difficulties arise, in our opinion, from the internal and external environment, whose impact can be considerable, regardless of the level at which it manifests itself.

As can be seen in the table below, the difficulties identified by respondents as having a high impact on the process of effective implementation of the managerial internal control system are related both to the entity's internal environment and to the external environment. Thus, the absence of training programs in the field of managerial internal control (the costs of such programs are quite high), in the context of the complexity of the applicable legislation and its frequent changes, corroborated with an inadequate leadership style, incapable of accountability and motivate staff, constitute real impediments in designing a system of internal managerial control to support the management of the public entity in managing the operations performed to achieve the objectives and manage its activities.

Note that in order to assess the impact of each difficulty, the respondents were asked to give notes from 1- low impact to 10 - high impact, in the table below we present the result obtained by centralizing the answers received.

Table no. 6 Hierarchy of difficulties in implementing the internal control system

Difficulty	Scores
No training / training programs in the field of managerial internal control	255
The way in which the management of the entity is assured (management style)	243
Complexity and frequency of legislative changes	239
Accountability of staff	225
Degree of staff motivation	224
Deficient communication, from the point of view of the form and timing, of the relevant information	203
The degree of transparency in determining the duties / tasks / responsibilities	186
Non-correlation between the requirements of the implementation of the internal managerial control system with the concrete possibilities at the level of the entity (from the point of view of the available personnel)	185
Degree of acceptance and appreciation of managerial internal control	180
Absence of formalized procedures	164

Source: author's processing

Each manager on his hierarchical level is the owner of a set of specific responsibilities and competencies through which the internal managerial control is carried out, but internal control is a process carried out by the staff at all levels, being carried out both by top management, but also by line management, meaning department managers, and all other employees, each being responsible for its internal control.

#### 4. Conclusions

The two formulated hypotheses were validated by the answers of the subjects of the study and the answer to the research question Internal control is recognized / perceived in public entities as a process designed to increase the performances of the entities? is definitely YES. In support of these conclusions, we bring the following arguments:

- Undoubtedly, internal control is an undeniable attribute of management, a function of leadership, a means of knowing and mastering reality, and of correcting dysfunctions, errors;
- this permanent and complex process is followed by corrective measures to remove the deviations, which implies not only to follow the way the tasks are done, but also the possibilities for improving the results;
- like any project has restrictions on coverage, time and costs, and therefore the allocation of resources requires decisions on the best way of allocation, given their limited nature.

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