THE LEVEL OF KNOWLEDGE AND IMPLEMENTATION OF CONTROL / MANAGEMENT STANDARDS IN LOCAL PUBLIC ADMINISTRATION IN ROMANIA

Monica MANEA BIRZĂ

Abstract: This article deals with some interesting issues regarding internal control and related aspects less analyzed by other authors. Processing data from the historical archaeological discoveries casts a new light on the time of appearance of internal control. Theoretical aspects consist in achieving a chronological presentation of legal regulations published in our country and provide the level of knowledge of internal control in public institutions in Romania. Practical issues are made by placing concrete progress implementing internal control standards in the particular case of local government. Their analysis reveals the need for additional procedural instructions that provide a framework for implementing universally accepted, best practice are only opinions about particular ways of solving problems.

Key words: internal control, public management, internal control standards.

1. Introduction

While performing an analysis of internal control, we may come across the question: Which came first: accounting, auditing or internal control? Regarded as a paraphrase of causality dilemma, the queries are based on an objective need to position in time a set of activities bounded together. Today, analyzing a public entity, requires automatically using data in both public accounting and internal audit and also procedures, measures and programs of internal control.

The complexity of the matter is determined by the number of elements, and its solution is given by the importance given to one or other of the characteristics. On the one hand, if the accounting business is mastering the art and science in which the goal is concerned with "measurement, evaluation, knowledge, management and control of assets, liabilities and equity, and the results obtained from individuals and legal activity" [6] and the internal audit unit is "functionally independent and objective activity which gives security and management advice for the proper administration of public revenues and expenditures" [5], it is clear manifest that

1 PhD Student, Faculty of Economics and Business Administration Cluj-Napoca.
the audit is a consequence of the existence of accounting.

2. The occurrence of internal control

According to American forensic doctors, professors at the University of Louisiana, Nicholas G. Apostolou and D. Larry Crumbley, the first manifestation of internal control was the tally stick, made after a specific methodology. Appeared in the absence of paper, tally sticks had cuts on them to keep score. What comes to forensic contact are notches found on a variety of bones from animals including wolves and baboons. "A baboon bone found in Switzerland called lebombo dates from around 35,000 BC and is marked with 29 clearly defined steps. This particular bone could be used monthly and is the oldest mathematical artefact that exists." [1]

Used initially as an aid to counting, tally stick has taken a different use with the development of trade. Because few people could read and write, it became the oldest form of evidence, both for recording physical quantities as well as a means of payment (money). In the authors’ opinion, it continued to become increasingly used in the medieval age as the equivalent of today's credit card and an internal control tool.

It’s usefulness is mentioned in the lyrics of Mihai Eminescu’s „First letter“: "From the marigold file it gathers thousands of shells, / Theirs names are written on the tally stick; / And another, divides people on boards, / Counting how much gold the sea carries on her black ships ...

There should also be mentioned the unique money system introduced in 1100 by King Henry I, son of William the Conqueror, which was based on rods made of hazel or sallow polished and which transactions were recorded on with a knife. The notches on the tally stick indicate the unit size. (The system continued to be used until 1826 when it was officially abolished.) Cutting them on their long side made sure that a party in a transaction could not add notations. This form of control ensures that any attempt at fraud would be discovered immediately by joining the two parts.

Although this control procedure may seem primitive, history proves its effectiveness for hundreds of years. After the peak of the XIV’th century, the tally stick had a slow decline even after the appearance of paper, but although it was the ancestor of double entry accounting, it facilitated financial transactions of those times and was a cruel but effective tool to internal control for several centuries.

Although now we define internal control in a broader sense to include operations to promote efficiency and obedience to rules, the use of tally sticks illustrates the essence of internal control.

3. The international context

Industrial development with the rise of internal control concept has undergone an interesting evolution. If in its infancy, the early 1900s, the goal was to protect assets, especially cash, and audits were based on the detection of fraud and clerical errors [11], after 1930 references appear to the use of test in place of detailed checks when information relating to internal control are considered reliable.

In 1936, American Association of Accountants (AICPA) issued a report entitled: Review of Financial Statements by Public Accountants, which defined internal control as "those measures and methods adopted in the organization to protect company assets and to verify the material accuracy of evidence". Consequently, qualification and training of employees are important components of internal control.
Processes of assessment and analysis of internal control have led to the reference models: COSO and COCO. Apparently the two models are different. COSO [3] describes internal control as consisting of five essential components: control environment, risk assessment, control activities, information and communication and monitoring. COCO model recognizes four interdependent elements of internal control purposes: capacity, commitment, monitoring and learning. On careful examination one can see that the twenty specific criteria of COCO control model can be incorporated seamlessly into components defined by the COSO model [7]. A great attitude on internal control has Eurofound (European Foundation for the Improvement of Living and Working Conditions), which created the minimum requirements for internal control processes through 16 standards providing general management principles, which apply its activities. These self-imposed standards are actually two models that customize the requirements of the two models to the functioning of Eurofound [10].

An important moment is constituted by the adoption in 2002 of the Sarbanes-Oxley ("Public Company Accounting Reform and Investor Protection Act"), in order to establish better standards for all U.S. public companies (including non-American companies, but which are listed on the American stock market), their management and for public accounting firms. Law had a beneficial effect in restoring confidence in the capital markets and increasing financial activities at the corporate level, because it covers issues such as auditor independence, corporate governance, internal control and improvement of financial statement presentation.

Within the EU three directives have been developed that can be a strategic opportunity to control the regulatory parameters of a company and increase confidence in its financial reports. Commonly referred to EuroSox, these directives include requirements for: ensuring effective internal control, risk management, asset declarations and audit structures and also measures for protecting shareholders' investments and improving corporate governance standards and ethical codes.

4. The level of knowledge of internal control / management in public administration in Romania

The meeting of needs of a community is the essence and justification of public administration, and the enforcement of laws and other legislation is the main task [8]. Thus, presence or absence of legal regulations (laws, decrees, government decisions, etc.), is a necessary condition for the making or the exclusion of an activity [4]. The positive side of the supremacy of law is that it provides the introduction of new techniques or methodologies, workforce and in all structures, but the downside is that in their absence it is virtually impossible to introduce and implement new knowledge.

For the first time the concept of internal control appears in our country in 1999, through the Government Ordinance no. 119/1999 on internal control and preventive financial control but, because of the lack of specific provisions on implementation, things remained at word level. Internal control standards are introduced in the public entity in 2005 by Order of Ministry of Public Finance: 946/2005 for the approval of internal control, including standards of management / internal control in public entities and for the development of management control systems, but without providing measures offenses, where their leaders will not take the necessary steps for implementation.
According to the order the head of each public entity establishes, taking into account the particularities of the legal organization and operation, measures necessary for the making and / or development of internal control / management, including the specific procedures for each activity. Objectives, actions, responsibilities, deadlines, and other components of these measures are included in the program development of the internal control / management, developed and updated in the respective public entity. For monitoring, coordination and methodological guidance of the implementation and / or internal control / management system development, the head of the public entity is, by an internal decision, a "structure" with the necessary powers, without specifying whether the structure is a legislature participatory body (committees or commissions) or a functional department (offices or services).

For the development of formalized activities procedures, public entities are given a model, a year later, by Order no. 1.389/2006 on amending and supplementing the Order of Finance Minister of Public no. 946/2005.

The input of internal control standards became mandatory at the end of 2010, by Law no. 234/2010 amending and complementing the Government Ordinance no. 119/1999 on internal control and preventive financial control. The failure to comply with this is considered minor contravention and will be fined from 3,000 lei to 5,000 lei.

Detailing the contents of this report is made in 2011 by Order of Ministry of Public Finance no. 1.649/2011 on amending and supplementing the Order of Finance Minister of Public no. 946/2005, approved the "Guidelines on the preparation, approval and submission of annual report of the head of the public entity on the system of internal control / management system". According to the guidelines "annual report on internal control / management system ", is developed by the head of the entity, as an annex to the accounts.

After follows a legislative gap, because it is not specified who and how it will perform its analysis and evaluation. As an annex to the financial reporting, there is the risk for this report to be placed in the category of documents which are not essential and should be treated as such.

By implementing internal control standards, aims of managers of public entities can be grouped into three categories with the same degree of importance in the internal control:

- Effectiveness and efficiency (includes objectives related to goals of the public entity and the efficient use of resources, but also includes resource protection objectives of misuse or loss and the identification and asset management),

- Reliability of internal and external informations (includes objectives related to an adequate accounting and reliable information used in public entity or broadcast to others, but include objectives to protect documents against two categories of fraud: fraud concealment and distortion of results)

- Compliance with laws, regulations and internal policies (includes objectives related to ensuring that the public entity's activities are conducted in accordance with the obligations imposed by law and regulations and includes compliance with internal policies and functions for which the public entity was established).

Making the targeting entity, mapping and analysis and risk assessment processes (which could compromise their performance), provides the manager reasonable assurance that its objectives will be achieved and confirmation of an adequate internal control policies.
What is not yet understood by the managers of the Romanian public institutions is that having correct procedures and efficient internal control is not an additional task for managers and their employees, but a profitable investment in the medium and long term.

In conclusion, internal control is a process carried out by all employees through operating procedures, under the direction of general manager/officer, who must take measures to ensure implementation and monitoring. Also external evaluation is assured by the Court of Accounts from Romania through performance audit missions [2].

5. Current state of implementation

To have a clear picture of the status of implementation of internal control standards / management within local government of Romania, I conducted a research on the entities of head municipalities in the country.

The choice of these public entities was made with the following considerations:
- They are representative of local government units;
- They have the most developed personal schemes to respond to a big number of citizens and, what is more important, they are more likely to employ more appropriate and better prepared, both in theory and in practice, employees;
- Their activities are based on the same legal regulations;
- They are an example for administrative-territorial units of that county,
- They are, generally, in the permanent attention of external auditors, because they manage large amounts of money.

In 2011, I requested, in accordance with Law no. 544/2001 on free access to the public information, some data from these entities. I received responses from 45 of the 48 municipalities surveyed. I did not make administrative complaints to the institutions concerned.

The first findings shed a bad light on the management of public administration, as the six years since the appearance of order, in 40.00% of the municipalities of the country, there hasn’t been an implementation of the order’s provisions. The fact that in 22.22% of them the implementation is in progress, leads to the conclusion that in over 60% of municipalities, the management has realized the importance of internal control. If this is the case in municipalities with hundreds of employees, than I estimate that the percentage decreases exponentially in cities, towns or villages municipalities which have a smaller number of employees. Graph of this situation is represented in figure 1.

![Graph showing state of implementation](image-url)
Trying to find an explanation for this situation I observed a phenomenon defining by its size. Given that 85.19% of the municipalities that have implemented or are under implementation of internal control standards, have already implemented a quality management system based on ISO 9001 we can say that ISO favours the conditions of implementation of internal control.

The actions of the implementation of ISO is required using a consulting firm that through its activities (training, development procedures and guidance system for the other procedures related to the activities of the entity) actually creates the adjustment of employees making procedures and therefore the obligation to observe them.

In the process of implementing the Standards of internal control / management, the entity is left to fend for itself, and the proposed model structure of the procedure is far too broad.

In the public entities that have implemented internal control / management standards, there were established structures to coordinate, monitor and to give methodological guidance commissions in 17.65% of the cases and functional compartments in proportion of 82.35% of the cases. But what is shocking is that there is or is not yet an official in them at the rate of 23.53%. If we associate the lack of staff with the lack of activity, it means that even if their standards of internal control / management are implemented, nothing happens on this subject for now. Graph of this situation is represented in figure 2.

![Graph of the situation of structures](image)

Fig. 2. The situation of structures for implementing the internal control standards

Most interesting issues arise when considering these compartments functions as follows:

- 21.42% of these departments also have other duties in the public entity;
- 14.29% of those departments develop procedures, otherwise the procedures are developed within specialized departments of the municipality;
- 64.29% of the departments develop internal control missions.

You must specify that these values refer only to departments with responsibilities in internal control / management, which have employees and because of that they are functional. Appetite for taking up control, poses serious questions about the implementation of these standards, because even if the standard 24, the manager
provides review and evaluation of internal control, the standard 25, these functions are given internal audit department. Graph of this situation is represented in Figure 3.

![Pie chart showing distribution of functions](image)

**Fig. 3. The situation of departments established for internal control functions**

6. Conclusions
The implementation of internal / management control standards did not start in too many institutions, so that general external causes that could make this process difficult do not exist because:
- The Order of the Minister of Public Finance no. 946/2005 was, at first, quite imprecise, and the mention in the law of only the economic regulation, quickly led me to conclude that it is only the task of the economic manager to ensure this process;
- The provision for implementation of the order in all public entities creates problems to small public entities regarding the structure and training of the staff. If under a number of employees, the standards would have reduced requirements, it would be easier to implement. A simple example would be given if there are 10 employees. Each of them can stop goals, so all functions are sensitive functions and the rotation of the staff can have negative effects,
- Lack of details on how to implement the standards, of which we mention the most controversial ones: sensitive functions, risk management and reporting irregularities.
- Although the order states the need to develop procedures for all activities, it does not contain a procedure to describe what happens to the annual report on internal control system implemented as an annex to the financial statements,
- Internal control / management standards do not contain details of the activities taking place in the institution after their implementation, which needs reviewing the criteria, remains that analyses are based on the procedures, but this can lead to superficial assessments.

References
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