

# CASE STUDY REGARDING THE ORGANIZATION, IMPLEMENTATION AND FUNCTIONING OF INTERNAL MANAGEMENT CONTROL WITHIN A PUBLIC ENTITY

MLADIN FRANCA

“TIBISCUS” UNIVERSITY OF TIMIȘOARA, FACULTY OF ECONOMIC SCIENCE  
[frankamladin@yahoo.com](mailto:frankamladin@yahoo.com)

## *Abstract:*

*Considering the particularities regarding the legal framework of organization and functioning, as well as the standards of internal management control, the head of each public entity has the necessary measures for the implementation and development of the internal management control system. In order to monitor, coordinate and methodologically guide the implementation and development of the internal management control system, the head of the public entity constitutes, by internal decision, a structure with attributions in this regard, referred to as the Monitoring Commission.*

*Key words: public entity, internal control, standards, program, objectives*

*JEL classification: H26*

## **Introduction**

The construction of a solid internal managerial control system is a long-term process that requires significant efforts from all the personnel of the entity and from the personnel with management positions.

The activities specific to the management internal control system are an integral part of the process oriented towards the achievement of the set objectives and include a diverse range of policies and procedures regarding: authorization and approval, segregation of attributions, access to resources and documents, verification, performance analysis, review of processes and activities, supervision.

Within private entities, lack of internal managerial control has often led to the opening of the insolvency proceedings. Failure of a business can be generated by external factors independent of the manner in which the business was ran, such as the competition or the law amendments, as well as by internal factors that are closely connected to the abilities and professionalism of the company’s management bodies. A skillful manager will protect the company against the intervention of disrupting external or internal factors, thus rendering the risks minimal<sup>1</sup>.

The evaluation of the organization/ implementation and functioning of internal management control within a public entity, revealed that, during the audited period, it was not organized and implemented in accordance with the provisions of the Order of the General Secretariat of the Government no. 600 of April 20, 2018 for the approval of the Code of internal management control of public entities.

Results and discussions

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<sup>1</sup> L.Iancu, (2019), *The opening of insolvency proceedings. Theory vs Practice*, Athens Jurnal of Law Volume 5, Issue 1 January 2019 The Athens Institute for Education and Research, p. 24

In order to consolidate an internal management control system, the Monitoring Commission elaborates the Program of development of the internal management control system, called Development Program, which is updated annually at the level of each public entity.

The development program includes the objectives of the public entity in the field of internal management control, depending on the stage of its implementation and development, for each internal management control standard activities, responsibilities and deadlines are established, as well as other relevant elements in the implementation and development of the internal management control system.

The Development Program also highlights professional development actions in the field of the internal management control system, both for the persons with management positions and for those with execution functions, through courses organized in accordance with the legislative regulations in the field.

The internal management<sup>2</sup> control system of any public entity operates with a variety of processes, means, actions, provisions, which concern all aspects related to the activities of the entity, being established and implemented by the entity's management to enable it to have good control over the functioning of the entity as a whole, as well as over each activity/ operation. The internal management control instrumentation can be classified into six large groups: objectives; means (resources); informational system; organization; procedures; control.

Thus, regarding the organization/ design of the internal management control system, the following deviations from the legal requirements/ criteria were found in the documents provided:

- at the level of the public entity, no compartment risk managers have been appointed (being named only one risk manager at the level of the entity), some of the responsibilities of those managers being established only through the risk management procedure;

- actions of professional training of the management and execution personnel in the field of internal management control system were not highlighted/ included in the 2019 Development program of the management control system, developed following the Disposition of the head of the entity.

Regarding the implementation of the internal management control system<sup>3</sup> respectively of the internal management control standards, it was found that on 31.12.2019 in relation to the degree of implementation of managerial internal control standards, its internal control system was partially compliant, at the level of the entity, 5 standards being partially implemented (Standard 1 – Ethics and Integrity, Standard 3 – Competence, performance, Standard 5 – Objectives, Standard 8 – Risk management, Standard 7 – Performance monitoring).

Thus, from the documents provided, deficiencies have been identified grouped within the key elements of internal/ management control, not meeting some general requirements of the standards (which present the determining directions in which to act in order to comply with the standards)/ general criteria for evaluating standards or other legal requirements/ criteria:

Control environment;

Ethical aspects.

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<sup>2</sup> Ordinul Secretariatului General al Guvernului nr. 600 din 20 aprilie 2018 pentru aprobarea Codului controlului intern managerial al entităților publice

<sup>3</sup> OG nr. 119 din 31 august 1999, privind controlul intern și controlul financiar preventiv, republicată, cu modificările și completările ulterioare

In the case of Standard 1 – Ethics and Integrity, policies and procedures regarding ethics and integrity have not been developed:

established procedures for the proper management of conflict of interest situations, procedures by which personnel is required to submit periodically or in certain situations statements regarding knowledge and compliance with ethical principles and values; established ways to raise awareness of ethical principles and values by organizing exchanges of experience, courses, trainings, evaluations (for example questionnaires, etc.), debates on ethical issues, tools for assessing the degree of knowledge of the regulations in the field of ethics within the system of monitoring compliance with the rules of conduct.

In the case of Standard 3 – Competence, performance, no annual training program or plan has been drawn up.

**Performance and risk management:**

- in the case of Standard 5 – Objectives, the specific objectives do not fully meet the SMART requirements package, respectively they are not measurable, the indicators have no targets set and do not have a deadline for completion;
- for Standard 7 – Performance monitoring, the performance of the activities within structures/ within the entity are not monitored, in order to inform the management of the public entity regarding the achievement of the proposed objectives, and reports/ information / documents on performance monitoring are not drafted at the level of structures, thus achievements can't be reported;

**In the case of Standard 8 – Risk management:**

- although a Regulation was organized and approved for the organization and functioning of the Risk Management Team (RMT) established at the level of the public entity, the team did not carry out its work and was not formalized (protocols of meetings, minutes of the meetings, the decisions taken have not been drawn up);
- no documents ("risk alert forms") have been drawn up which formalize the identification and assessment of risks;
- risks have not been analyzed and debated in the RMT meetings, respectively the significant ones in the Monitoring Commission, since 01.01.2019;
- risks have not been ranked, prioritized and the risk tolerance limit has not been established and approved annually;
- residual risks are not evaluated in the Risk Register drawn up at the entity level and at the level of some structures within the entity;
- at the level of the structures of the entity, no annual reports/ information on the risk management process (including control measures) were drafted or submitted to the RMT (the secretary) or the Monitoring Commission, as no information regarding the risk management process at the level of the entity was transmitted from the RMT secretary to the Monitoring Commission/ from the Commission to the head of the entity, for approval;
- no plans were drawn up at compartment level for the implementation of control measures and at the RMT level no plan for the implementation of the control measures for risks was prepared until 31.12.2019/ at the level of the Monitoring Commission a plan of implementation of control measures for significant risks at the level of the public entity was established starting with 01.01.2019.

In accordance with the provisions of OGS No 600/2018, Standard 1 - Ethics and integrity, the following is stipulated<sup>4</sup>:

Description of the standard. The management and the employees of the public entity know and support the ethical values and the values of the entity, respect and apply the regulations regarding ethics, integrity, avoiding conflicts of interest, preventing and reporting frauds, corruption acts and reporting irregularities.

General requirements. The management of the public entity supports and promotes, through its decisions and the power of personal example, the ethical values, the personal and professional integrity of employees.

The public entity's management adopts a code of conduct, develops and implements policies and procedures regarding integrity, ethical values, avoiding conflicts of interest, preventing and reporting frauds, corruption acts and reporting irregularities.

The management of the public entity facilitates the open communication among employees, their concerns regarding ethics and integrity, by appointing an ethics counselor to monitor compliance with the entity's conduct rules<sup>5</sup>.

Employees' action to report irregularities must be transparent in order to eliminate the suspicion of delusion and should be regarded as exercising a professional duty.

Employees who report irregularities of which they are aware, directly or indirectly, will be protected against any discrimination and the managers have the obligation to carry out appropriate investigations, in order to elucidate those reported and to take<sup>6</sup>, where appropriate, the necessary measures.

The management and employees of a public entity have a constructive approach towards internal management control, and they permanently support its operation.

The declaration of assets, interests and goods received free of charge is made by all the factors concerned, in accordance with the legal provisions<sup>7</sup>.

## Conclusions

Public entities may have: a compliant system; a partially compliant system; the partially limited system and a non-compliant system, as it results from the REPORT on the system of internal management control on December 31, 2019.

The causes and the circumstances that determined the deficiencies presented above, were due to the improper exercise of the attributions regarding the organization and implementation of the internal control system by the head of the entity, the lack of monitoring / coordination in order to develop it, as well as the lack of specific training in internal/ management control including in the field of risk management.

It should be mentioned that the notion of insolvency is not only related to private entities, Government Emergency Ordinance no. 46/2013 regulates the insolvency of the territorial administrative units. The persons responsible for controlling and administering the patrimony of the territorial administrative unit that contributed to that entity entering

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<sup>4</sup> Ordinul Secretariatului General al Guvernului nr. 600 din 20 aprilie 2018 pentru aprobarea Codului controlului intern managerial al entităților publice.

<sup>5</sup> OG nr. 119 din 31 august 1999, privind controlul intern și controlul financiar preventiv, republicată, cu modificările și completările ulterioare

<sup>6</sup> Ordinul Secretariatului General al Guvernului nr. 600 din 20 aprilie 2018 pentru aprobarea Codului controlului intern managerial al entităților publice.

<sup>7</sup> OG nr. 119 din 31 august 1999, privind controlul intern și controlul financiar preventiv, republicată, cu modificările și completările ulterioare

the insolvency state can be held personally accountable for paying the debts<sup>8</sup>, and the lack of internal control can be a decisive factor.

The consequences of not properly implementing the internal control system, respectively of not fully implementing the above-mentioned standards, create the premises for not identifying all functions / activities that present a significant risk in relation to the general and specific objectives of the audited entity, fact confirmed by some deficiencies found and recorded by the audit team in the present report of findings.

The internal management control is the responsibility of the heads of public entities, who have the obligation to design, implement and continuously develop it. Entrusting third parties to carry out the activities regarding the implementation and development of the public entity's internal management control system assumes that, in this situation, the head of the public entity does not have good results in fulfilling his attributions.

### References

1. L. Iancu,(2015) *Insolvency of the territorial administrative units in Romania*,a Annals. Economic Science Series Vol XXI/2015, Eurostampa, Timișoara
2. L.Iancu, (2019), *The opening of insolvency proceedings. Theory vs Practice*, Athens Jurnal of Law Volume 5, Issue 1 January 2019, The Athens Institute for Education and Research, Athena
3. *Legea contabilității nr. 82/24.12.1991 cu modificările și completările ulterioare;*
4. *Legea nr. 82/1991 a contabilității, cu modificările și completările ulterioare;*
5. *O.M.F.P. 2634/2015 privind documentele financiar-contabile;*
6. *OG nr. 119 din 31 august 1999, privind controlul intern și controlul financiar preventiv, republicată, cu modificările și completările ulterioare;*
7. *OMFP nr. 1.792/2002 pentru aprobarea Normelor metodologice privind angajarea, lichidarea, ordonanțarea și plata cheltuielilor instituțiilor publice, precum și organizarea, evidența și raportarea angajamentelor bugetare și legale, cu modificările și completările ulterioare;*
8. *OMFP nr. 1.917/2005 pentru aprobarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia, cu modificările și completările ulterioare;*
9. *Ordinul Secretariatului General al Guvernului nr. 600 din 20 aprilie 2018 pentru aprobarea Codului controlului intern managerial al entităților publice.*

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<sup>8</sup> L. Iancu,(2015) *Insolvency of the territorial administrative units in Romania*,a Annals. Economic Science Series Vol XXI/2015, Eurostampa, Timișoara, p. 275