CASE STUDY ON THE ORGANIZATION OF INTERNAL MANAGERIAL CONTROL

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Abstract:
The qualitative preparation of audit reports is of major and significant importance and it depends on: the competence and professionalism of the auditors, their relationship with the general management as well as the management of the structural levels and the executors.
The role of internal audit will be achieved when it manages to meet within the organization various assurance providers, namely: those responsible for organizing internal control and the person responsible for risk management.

Keywords: internal public audit, objectives, auditors, risks, management

INTRODUCTION

The internal public audit audits the following[1]:

a) budgetary commitments and legal commitments from which certain payment obligations directly or indirectly result;

b) which are the payments that have been assumed through budgetary commitments and legal commitments;

c) the sale procedure, the pledge procedure, the concession procedure or the rental procedure regarding assets in the private domain of the state or assets in the private domain of administrative-territorial units;

d) the concession procedure or the rental procedure regarding assets belonging to the public domain of the state or belonging to the public domain of administrative-territorial units;

e) the method of establishment regarding public revenues, namely the method of authorization and establishment of debt securities, as well as the facilities granted for their collection;

f) the method of allocation regarding budgetary credits;

g) the method of organization of the accounting system as well as the reliability of the accounting system;

h) the system regarding decision-making;

i) the management systems and control systems within the entity. The risks associated with the systems are also audited;

j) the organization and implementation of information systems.

Initiating the audit is actually the first stage in order to carry out an audit mission[2].

Internal auditors have the legal right to request any data or information, as well as copies of all documents that will later be certified for compliance.

During the On-site Intervention stage, all data, information, and documents drawn up by the entity subject to verification are collected, and these data and situations received are analyzed.

This data and information is also examined and evaluated by the audit team.

[1] LEGE nr. 672 din 19 decembrie 2002 (*republicată*) privind auditul public intern
[2] Ionescu, Luminița. Nica, Dumitru (2021) Audit public intern, Editura Fundației România de mâine

This stage includes the following procedures: collection of information by auditors and collection of all evidence; identified audit findings and reporting of these irregularities; review of all working documents; closing meeting[3].

Information collection and collection of evidence involves:

- ✓ knowledge of the activity that is subject to the verification process and the development and implementation of all related procedures;
- ✓ interviewing the personnel that are subject to the audit process;
- ✓ examination of financial and accounting records, the analysis process regarding the data, documents and information presented by the entity, the assessment of efficiency, the assessment of economy and effectiveness in terms of internal controls within the entity, the way in which testing is carried out.

The purpose of collecting information is to perform the tests established by the audit program approved by the entity's management.

The significant techniques regarding internal audit are[4]:

1) Verification, through this technique, the method/modality regarding validation is ensured, the method/modality regarding confirmation, the method/modality regarding the accuracy of records, documents, the method/modality regarding the correctness of statements, the method/modality regarding compliance with legal regulations in force.

The effectiveness of internal controls is also verified.

2) Physical observation is an audit technique within which internal auditors have the opportunity to outline and clearly establish their own opinion.

3) Interview, through this audit technique, auditors have the opportunity to interview any of the audited persons, the persons involved or the interested persons.

I specify that any information obtained/received must be confirmed with documents[5].

4) Analysis is an audit technique that consists of dividing, decomposing the entity subject to verification into certain elements.

These elements can be isolated, identified, quantified and also measured distinctly.

CASE STUDY

In the lines below I briefly present significant internal audit tools:

1) The questionnaire, is a tool that contains certain questions that are formulated by internal auditors.

We specify that this tool is used in the stage of preparing the audit issue;

c) the questionnaire - checklist abbreviated CLV, this tool is used to establish all the necessary conditions for each auditable area.

This document contains several standard questions regarding the defined objectives, defining responsibilities and establishing financial methods and means, identifying information techniques, identifying existing human resources.

This document is used both in the on-site intervention stage and in the evidence collection procedure.

2) The information board, also known as the audit trail, with the help of which auditors are allowed to:

[3] H.G. nr. 1.086 din 11 decembrie 2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

[4] LEGE nr. 672 din 19 decembrie 2002 (*republicată*) privind auditul public intern

[5] Ionescu, Luminița. Nica, Dumitru (2021) Audit public intern, Editura Fundației România de mâine

- establish the information flows, the attribution flows and the responsibilities flows related to them;
- establish complex and complete supporting documents;
- reconstruct what the operations are from the final total amount to individual details and vice versa.

3) The internal audit findings form, this document is used to present the internal audit findings.

The purpose of document review is to assure auditors that these documents are properly prepared, that these documents provide and present real support for the performance and conduct of the audit.

To achieve this final goal, all activities carried out within the entity are verified, namely[6]:

- ✓ the correctness, examination method, assessment method, as well as the sufficiency and use of all accounting controls, financial controls and operational controls, supporting effective control at an acceptable cost;
- ✓ the method for verifying compliance with accounting policies, with the developed and approved audit plans and with the inventoried system procedures;
- ✓ the method for verifying the extent to which all patrimonial assets are recorded in the accounting based on justified documents and are protected from losses regardless of nature;
- ✓ the method for verifying the accuracy of all information that management uses;
- ✓ the method for assessing the quality of actions regarding the implementation of all decisions made.

The information used by the audit is structured as follows:

- ✓ Knowledge of the audited entity – here the auditor identifies all the fundamental notions that refer to the environment of the entity as well as to the procedure, namely the way in which the entity carries out its activity, regarding:
  - the objectives subject to the audit;
  - the resources that were necessary in order to carry out the audit;
  - what is the applicable legislative framework in the matter;
  - the name of the control systems;
  - the presentation of other reports that the entity has;
  - information about the management of the entity;
  - employees, the personnel employed within the entity;
  - what are the results that the entity has clearly obtained to date;
  - the permanent updating of the organizational chart at the entity level.

In order to complete all the information that leads to knowledge of the entity's activity, the auditor searches throughout the mission for important information in order to identify risks, such as:

- incomplete internal control system,
- notable deviations,
- incorrect or illegal accounting records,
- management policy regarding compliance with the legislation in force, significant financial losses,

[6] H.G. nr. 1.086 din 11 decembrie 2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

- identification of all the entity's activities that have a downward trend and that may anticipate a certain state of difficulty in the future,
- identification of all significant legal and fiscal risks,
- identification of situations in which the performance of the financial audit may be limited

I will exemplify with the case study on how the internal managerial control[7] system was organized and implemented at the level of a public entity.

Internal audit[8], through the recommendations it formulates, brings significant improvements to all processes and all activities carried out within the audited entity.

The objectives pursued, analyzed and examined by auditors, which are included in all preparatory documents for the audit, are:

a) Organizing internal managerial control;
b) Implementing the 16 Internal Managerial Control Standards;
c) Semi-annual reporting and annual reporting.
d) The advisory activity carried out by the auditor is of the consultancy type and aims to: dentifying obstacles that prevent the normal development of activities/programs/processes;
e) establishing the causes that determined the obstacles;
f) determining the consequences and presenting solutions to eliminate the identified obstacles.

Documents and materials examined within the audited entity concerned the documentation regarding the SCIM Implementation Method, namely:

- Organizational chart and staff list of the entity
- Operational procedures;
- Job descriptions;
- Disposition of the entity's manager regarding the updating of the committee for monitoring, coordination and methodological guidance regarding the organization and especially the implementation of internal managerial control;
- By the committee's Disposition, the Risk Management Team was formed/established;
- The risk register that was drawn up at the level of each department.

The audit team prepared the following documents during the audit mission:

a) Acknowledgement questionnaire;
b) List of audit objectives;
c) Audit mission program was developed;
d) Questionnaire containing checklist was developed;
e) Tests;
f) Note centralizing all working documents;
g) Minutes of the meeting at the opening of the mission, minutes of the meeting at the closing;
h) Preparation and presentation of a public audit report.

MONITORING COMMITTEE WITHIN THE ENTITY

Objective 1: Organization of internal managerial control

Findings:

[7] Ordin Secretariatul General Al Guvernului nr. 600 din 07 mai 2018 pentru aprobarea Codului controlului intern managerial al entităților publice

[8] LEGE nr. 672 din 19 decembrie 2002 (*republicată*) privind auditul public intern

The structure for monitoring, coordination and methodological guidance was established by Provision no. 26/30.04.2024 and consists of 9 people.

In accordance with the legislation in force, the monitoring committee must be composed of department heads and is coordinated by the president.

The secretary of this committee and his deputy are appointed by the president.

"The regulations for the organization and functioning of the Committee for monitoring, coordination and methodological guidance of the development of the internal/managerial control system of the entity are registered with the entity, then it is endorsed by the person who has the quality of vice-president of the committee and approved by the head of the entity.

The entity did not make available to the audit the "Program for the development of the internal managerial control system".

We also found that the members of the monitoring committee did not meet and did not meet in the cases and situations when this was requested by the chairman of the Committee.

The chairman is the person responsible for presenting the agenda of the meetings and also ensures the conduct and proper conduct of these meetings.

The entity did not make available to the audit information regarding the monitoring of the identified performances and put in correspondence with the activities carried out by the entity.

The entity did not develop, present and make available to the audit information regarding the conduct and implementation of the risk management process.

The audit also noted the following aspects:

- ✓ The list of all activities carried out within the department was not made available to the audit,
- ✓ A situation regarding the establishment of the risk level and the establishment of the final/total score regarding risks for all activities within the entity was not prepared or presented.

Proposed solutions:

- ⇧ The advised entity will prepare a Development Program for the internal management control system.
- ⇧ The nominated members of the Monitoring Committee must meet when necessary and as often as necessary.
- ⇧ After each meeting that takes place, a minute must be drawn up regarding the meeting.
- ⇧ The members who have been nominated to the monitoring committee must analyze, examine and verify the management of all identified risks.
- ⇧ The members of the committee are obliged to approve and approve information related to the identified risks.

By the Disposition of the head of the entity, the persons who are part of the team responsible for risk management were nominated, having clearly established tasks in this regard.

According to the legislation, the EGR is made up of:

- persons with management positions within the specialized departments or, as the case may be, their substitutes;
- the committee thus assembled is led and coordinated by 1 chairman, respectively a person who has managerial tasks, has a management position, and is not the person who manages/coordinates the Monitoring Committee.

The person who holds the position of secretary of this Committee as well as his substitute are designated/nominated by the President, respectively they are those persons who have responsibilities in managing risks within all departments.

The members of the team that manages risks, the chairman of the committee and the secretary of the committee, are nominated by the Disposition mentioned above. We specify that persons are provided to replace them.

The specialized personnel within the entity did not make available to the audit an Organization and Operation Regulation that would serve the members nominated in the Management Team regarding risks.

The specialized personnel within the entity did not present any minutes of the meetings concluded by the members of the risk management team.

The entity did not develop and present any risk register for each department/service, valid for the period subject to the audit. I would like to point out that the risk register was not developed at the entity level.

The entity did not draw up or develop the system operational procedure regarding Risk Management[9].

At the same time, at the entity level, 1 Plan was not developed and presented that would include information regarding the implementation of remedial measures, compliance measures and control measures.

The specialized personnel within the entity did not prepare an errata, respectively an information regarding the manner of carrying out the process/mechanism for managing all risks, based on the reports that are made annually at the level of all services/departments of the entity.

Recommendations:

- the appointed president of the risk management team will take measures regarding the development of an Organization and Operation Regulation.
- the appointed president of the risk management team will take measures regarding: issuing the agenda of the meetings of the team members; ensuring the management of the meetings, and at the end of them will take care of the development of all minutes of the meetings.

The minutes of these meetings must contain information regarding the debates in relation to the identified risks, with the measures established following the control, which will then be transmitted to each department within the entity in order to implement them.

-staff with tasks established by the job description regarding risks within the entity's departments/services will develop registers regarding the identified risks.

The centralization of the risk registers from each department is done in a single register, entitled the risk register at the audited entity level, by the person who holds the position of the Team regarding the management of all risks.

-measures will be taken that will lead to the preparation, verification, endorsement and approval of the system procedure regarding Risk Management.

-the person designated as Secretary of the Team with established tasks regarding risk management, and who has received the reports for each department within the entity, must take measures to prepare the Implementation Plan. This plan must include all actions, all control measures that have been established for all departments within the entity.

-it is suggested, recommended that the secretary of the entity to whom EGR tasks have been assigned, present information related to the development of the process regarding the

[9] Ordin Secretariatul General Al Guvernului nr. 600 din 07 mai 2018 pentru aprobarea Codului controlului intern managerial al entităților publice

management of all risks, which are based on the reports prepared at the level of each department/service within the entity.

In our present context, the audit thrives through a better definition and a higher level of expected performances[10].

It is an instrument that can be used for measuring the level in which an employer satisfies the legal obligations in administering the work force and for registering the corrective measures which can be required.[11]

CONCLUSIONS

The audit team concluded the following: following the evaluation of the organization/implementation and functioning of the internal managerial control, it resulted that during the audited period:

- it was not fully organized in accordance with the legal provisions on internal control and preventive financial control, the provisions of the Internal/Managerial Control Code within all public entities;

- internal control was not fully implemented in accordance with the legal provisions on internal control and preventive financial control, and the provisions of the Internal/Managerial Control Code specific to public entities.

Regarding the organization and/or design of the internal managerial control system, we found several non-conformities, irregularities or deviations from the updated legal provisions on the matter.

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