

## The Internal Control Management Development Strategy in Romania

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**Abstract:** The internal control management means all the forms of control exercised at the public entity, including internal audit, established by the management in accordance with its objectives and legal regulations in order to provide fund administration economically, efficiently and effectively; it also includes the organizational structures, methods, and procedures. The phrase, “internal control management” emphasizes the responsibility of all hierarchical levels for controlling all internal processes undertaken in order to achieve its general and specific objectives.

The internal control management development strategy prioritizes managerial responsibility and ensures that the implemented internal control management systems are adequate and prevent or limit errors and fraud.

**Keywords:** internal control management system, operational procedure, system procedure, risks registry, internal control standards, risk management

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# 1. Terms and Abbreviations Glossary

## 1.1. Definitions

**Governance** - a set of processes and structures implemented by the management to inform, target, manage and monitor the activities of the public entity in order to achieve its objectives.

**Methodological guidance** – the counseling activity in the implementation and development of the internal control management in public entities and providing expert advice by the methodological guidance team at the request of the public entity;

**Risk management** – the methodology aimed at providing a comprehensive risk control, allowing to maintain an acceptable level of risk exposure for the public entity, with minimal costs. Risk management covers a wide range of activities rigorously defined and organized, starting from the conditions of existence and objectives of the public entity and also the analysis of the risk factors in optimal and efficient functioning concepts.

**Objectives** - the positive effects that the public entity management seeks to achieve or events / negative effects that the management tries to avoid.

**Formalized procedure** - all the steps to be followed, the established working modalities and rules to be applied in the execution of work, in its duty or task and published on paper and / or electronic. The formalized procedures can be system procedures and operational procedures.

**The operational procedure** - a procedure that describes a process or an activity that is carried out at the level of one or more compartments of an entity.

**System procedure** - a procedure that describes a process or activity that takes place in all departments / structures of an entity.

**Management responsibility** - defining a legally binding obligation of the tasks of the public entity manager or an organizational structure thereof, which involves exercising management within internal and external determinations, in order to achieve effective, efficient and in accordance with the legal provisions the objectives, to communicate and respond to the failure of the managerial obligations under the legal liability. The managerial accountability derives from the manager's responsibility for all five components of the internal management

control in the public sector: the control environment; performances and risk management; control activities; information and communication; evaluation and audit.

**Risk** - a problem (situation, event, etc.) that has not yet appeared, but may occur in the future, in which case the previously fixed obtained results are threatened or enhanced. In the first case, the risk is a threat, and in the second the risk is an opportunity. The risk is the uncertainty in achieving the desired results and must be viewed as a combination of likelihood and impact.

**Significant risk** - high risk, that may affect the entity's ability to achieve its objectives.

**Risk strategy** - the general approach that the entity has on risks. This must be documented and easily accessible to the public entity. The risk strategy defines the risk tolerance.

## 1.2. Abbreviations

Nr. Crt.	Abbreviation	Name
1.	CM	Monitoring Commission
2.	Central public entities	Principal loan managers of the state budget, of the state social insurance budgets and of any other special fund budget
3.	EGR	Risk management team
4.	RR	Risk register
5.	SCIM	The internal control management system

## 2. General considerations on the concept and development strategy of the internal control management

The community legislation on internal control consists mostly of general principles of good practice accepted internationally and also in the European Union. The way these principles translate into internal control systems is specific to each country and it's determined by legislative, administrative, cultural, etc. conditions.

In the context of the general principles of good practice found in the Community legislation, the internal control is associated with a larger sense, and it is seen as a management function and not as a verification operation. By exercising the

control, the management detects deviations from the targeted results, analyze the causes that determined those and take corrective or preventive measures.

The necessity and compulsoriness of the internal control for public entities is regulated by the Government Ordinance no. 119/1999 on internal control management and preventive financial control, republished, as amended and supplemented.

According to the Government Ordinance no. 119/1999, republished, as amended and supplemented, the internal control management is defined as all forms of control exercised at the public entity, including internal audit, established by the management in accordance with its objectives and legal regulations in order to ensure the management of public funds economically, efficiently and effectively; it also includes organizational structures, methods, and procedures.

Although the national and international definitions of internal control are numerous, they are not contradictory in essence, all stating that it is not a single function, but an assembly of devices implemented by those responsible at all the organization levels in order to have control over the operation of their activities.

The organization of the internal control management at any public entity, envisages the realization of three categories of permanent objectives, which can be grouped as it follows:

- a) objectives on the effectiveness and operating efficiency - include objectives related to the goals of the public entity and using in an economy, effectiveness and efficiency way the resources, including the objectives on the resources safeguards of the public entity from misuse or loss and identifying and manage liabilities;
- b) objectives on the reliability of external and internal intelligence - include the objectives related to keeping a proper accounting, to the quality of the information used in public entities or given to third parties, and also protecting the documents against two categories of fraud: concealing fraud and results distortion;
- c) objectives regarding the compliance with the laws, regulations and internal policies - include the objectives ensuring that the entity's operations are conducted in accordance with obligations imposed by laws and regulations and in compliance with internal policies.

The projection, implementation and further development of a viable internal control system is possible only if the system meets the following requirements:

- a) to be adapted to the size, complexity and the specific environment of the entity;
- b) to cover all management levels and all activities / operations;
- c) to be constructed with the same “instruments” in all public entities;
- d) to provide reasonable assurance that the entity’s objectives will be achieved;
- e) the costs for the implementation of the internal control system to be lower than the benefits thereof;
- f) to be governed by the minimum management rules contained in the internal control management standards.

The internal control system management in any public entity works with a variety of methods, means and actions, provisions, concerning all the aspects from the activities of the entity, being set and implemented by the management in order to have a better control over the entity operations as a whole, and also over each activity / operation separately. The internal control management instruments can be classified into six main groups: objectives; means; informational system; organization; procedures; control.

Building a solid internal control system is a long process that requires significant efforts from all the staff of the entity and, particularly, from the management positions employees.

The activities of the internal control management are part of the management process and it’s focused on achieving the set objectives and include a wide range of policies and procedures concerning: the authorization and approval, the segregation of duties, the access to resources and documents, the verification, the reconciliation, the operation performance analysis, the operations processes, and activities review, supervision.

The strategy involves setting goals and organizational priorities (based on the forecasts of the external environment and the capabilities of the organization) and the designation of operational plans through which these objectives can be achieved.

The internal control management development strategy objective is to determine the main lines of action designed to further develop the internal control management system.

### **3. The internal control management development strategy**

#### **3.1. The current internal control management system in the public entities**

In accordance with art. 11 of GEO no. 86/2014 on the establishment of reorganization measures at central government level and on amending and supplementing certain acts, as amended and supplemented, approved by Law no. 174/2015, the internal control management systems activity is carried out by the Government.

On this line, it was established a specialized structure, namely, the Internal Control Management and Institutional Relations Direction (Staff) - DCIMRI having as primary responsibility the development and implementation of the internal control management system, the coordination and supervision through verification and methodological guidance for the implementation of the internal control management system.

The general objectives of DCIMRI are:

- (1) The development of the internal control management policy;
- (2) Methodological guidance and coordination of the internal control management;
- (3) Supervising the implementation of the internal control management in accordance with the regulatory framework.

DCIMRI developed OSGG no. 400/2015 on the approval of the internal management controller of public entities Code, published in Official Gazette no. 444/2015, which amended and supplemented the Order OMFP no. 946/2005 and had as the main effect the reduction of the number of internal control standards from 25 to 16 standards, according to the good practice of the European Union.

Furthermore, it was established as necessary to create a regulatory framework for the coordination activities, supervision and methodological guidance of the internal control management systems in the public entities run by DCIMRI.

Under these circumstances, in 2016, DCIMRI developed:

- OSGG no. 200/2016 amending and supplementing OSGG no. 400/2015 on approving the Internal Control Management for public entities Code;
- OSGG no. 201/2016 on approving the Methodological Norms on the coordination, methodological guidance and supervision of the implementation

status for the internal control management system development in public entities.

### **3.2. The SCIM implementation and development stage**

Romania, before finalizing the process of accession to the European Union adopted the international standards of the internal control through the Memorandum and subsequently created and strengthened through the developed legislation an implementation system for the internal control management (SCIM).

#### **Strong points in the implementation and development of SCIM:**

##### **1) The existence of the legal framework for the organization and functioning of SCIM in Romania based on the regulatory framework which consists of:**

- Law no. 174/2015 on approving the Government Emergency Ordinance no. 86/2014 regarding some measures to reorganize the central public administration and on amending certain laws;
- G.D. no. 463/2016 on the organization, functioning and the responsibilities of the General Secretariat of the Government;
- OSGG no. 400/2015 for approving the internal management Code of public entities, as amended and supplemented;
- OSGG no. 201/2016 approving the Methodological Norms on the coordination, methodological guidance and supervision of the implementation and the development status for the internal control management system in public entities.

**RESULT:** SCIM insurance policy in the central public entities, on the coordination, methodological guidance and supervision of the implementation and the development status for the internal control management system in public entities.

##### **2) The establishment and operation of the specialized structures, ensuring the performance of the implementation and development of SCIM, observed on quarterly and annual reports in accordance with OSGG no. 400/2015, as amended and supplemented,**

**RESULT:** ensuring the implementation and development of SCIM into the public entities.

##### **3) The introduction into the public entities culture from Romania of the principles of international standards of management and internal control;**

**RESULT:** the implementation of good practices on internal control management in public entities from Romania.

**4) Creating a system for assessing the stage of implementation and development of the internal control management in the public sector, conducted under OSGG no. 201/2016;**

**RESULT:** ensuring the real and accurate assessment of the SCIM implementation stage and development within the public entities, specialized structure within SGG, namely, the Internal Control Management and Inter-institutional Relations Direction (DCIMRI).

**5) The existence of a system for reporting the SCIM progress implementation in the public sector at a central level in Romania, under OSGG no. 400/2015, modified and supplemented;**

**RESULT:** assessing the achieved progress and the results in the implementation of SCIM by the general management and by the line management of the public entities.

**Weaknesses in the implementation and development of SCIM:**

**1) Insufficient understanding by the public entities leaders of the necessity and their responsibilities in the implementation and development of SCIM;**

**RESULT:** delays in implementing the internal control standards at some authorized loan officer/managers and the need for an increased inspection activity and methodological guidance from the specialized staff within DCIMRI for the awareness of the need and importance of internal control management approach to the public entities.

**2) Failure to establish in all the central public entities and especially in the subordinated public entities or in the coordination of specialized structures ensuring the performance of the implementation and development of SCIM, respectively the Monitoring Committee (MC) and the risks management team (EGR);**

**Consequences:** the failure of the methodological guidance and specialized assistance at the central level affecting the pace and the degree of the SCIM implementation in those public entities.

**3) The lack of uniform methodology for the nationally SCIM implementation;**

**RESULT:** uneven application of some working tools and significant differences in terms of institutional working mechanisms.

**4) Inadequate risk management within the entities by non-compliance with the requirements from Standard 8 - Risk management in most public entities;**

**RESULT:** Failure to establish or inoperative risk management teams in most public entities, the lack of risk registers and the failure to update it annually due to inadequate training of the persons responsible for the risk.

**5) The lack of a comprehensive regulatory framework for the activities of public entities, in accordance with Standard 9 - Procedures;**

**RESULT:** the failure to elaborate a procedure, in all cases, for developing the procedures into the public entity, the failure to complete all procedures for the work procedures and failure to update them annually.

**6) SCIM development programs failure on professional training for both management positions and also for the executive ones;**

**RESULT:** inadequate preparation in SCIM activity of the management and executive personnel, contributing in some cases to maintaining a low level of the SCIM implementation within public entities.

### **3.3. The main actions regarding internal control management in the near future**

Internal control management development strategy pursues mainly the following objectives:

**a) The development of standard methodology for the implementation of SCIM nationwide, including:**

- The risk management methodology applicable to public institutions at central and local levels;
- The implementation of formalized procedures guide;
- The SCIM implementation manual;

**b) The development of some work tools with practical application, in order to simplify the implementation and development of SCIM, which include:**

- Developing an effective system of performance monitoring through relevant quantitative and qualitative indicators, including the economy, efficiency and effectiveness of each activity of the public entity;

- Improving the regulatory framework for a more effective risk management at all levels by developing working models for the risk identification, evaluation and updating in order to achieve the objectives set within the public entity;
- Developing a comprehensive procedural framework so the formalized procedures can become effective instruments of internal control for the purposes of smooth running activities in public entities;

**c) The implementation of best practices on the internal control management** by introducing specific SCIM tasks into the job descriptions of the staff from public entities;

**d) The coordination, methodological guidance and supervision of the implementation and development status of the internal control management system by verification missions and methodological guidance** into public entities:

- The evaluation of accuracy and progress and the results achieved in the implementation of SCIM by the general and line management of public entities.
- The SCIM implementation and development analysis under biannual and annual reports of the public entities in order to improve the SCIM policy.
- The performance tracking of the management control system development program of public entities, which includes objectives, actions, responsibilities, deadlines, and other measures necessary for its development, such as the development and implementation of formalized procedures on activities, professional development, risk management etc. .;
- Determining, for each compartment of the public entity structure, the objectives, activities, procedures, etc. ;

**e) The professional development of the SCIM involved personnel** through courses organized by the public authorized bodies.