

UDC: 330.1, 338.2, 334

THE ROLE OF FINANCIAL CONTROL IN THE FINANCIAL MANAGEMENT OF
MODERN ECONOMICS

ROLUL CONTROLULUI FINANCIAR ÎN MANAGEMENTUL FINANCIAR AL
ECONOMIILOR MODERNE

*HURLOIU Lăcrămioara, PhD,
Spiru Haret University, Bucharest
RUSU Bianca, PhD,
Spiru Haret University, Bucharest
HURLOIU Iulian, Lecturer
Spiru Haret University, Bucharest*

*HURLOIU Lăcrămioara, doctor, conferențiar universitar,
Universitatea Spiru Haret, București
RUSU Bianca, doctor, conferențiar universitar,
Universitatea Spiru Haret, București
HURLOIU Iulian, lector universitar,
Universitatea Spiru Haret, București*

Annotation: *Institutions are required to permanently keep accounting records in accordance with the provisions of the Accounting Law and other relevant regulations issued in its application, and to prepare adequate financial statements in order to properly reflect their transactions and financial condition. The frequency of this control, in all its forms, either internally or externally, either financial or fiscal, has determined the moments of establishing the conclusions necessary for conducting future activities. Also, this control is meant to materialize the range of criteria considered in supporting programs and forecasts.*

Adnotare: *Instituțiile sunt obligate să-și mențină conturile în mod continuu, în conformitate cu prevederile Legii contabilității și ale altor reglementări relevante emise în cererea sa și să întocmească situații financiare adecvate pentru a reflecta în mod corespunzător tranzacțiile și situația financiară a acestora. Frecvența acestui control, în toate formele sale, atât interne, cât și externe, fie ea financiară sau fiscală, a determinat momentele de stabilire a concluziilor necesare pentru evenimentele viitoare. În plus, acest control are rolul de a implementa o serie de criterii luate în considerare în susținerea programelor și previziunilor.*

Keywords: *financial management, summary documents, consolidating documents, public institutions.*

Cuvinte-cheie: *documente explicative, management financiar, documente cumulative, documente consolidate, instituții publice.*

Introduction

In a free market economy, the market is the place and the way that delivers, checks and makes the expected profit, but this goal depends on the intelligence of the entrepreneur, the degree of research development in those areas, the skill with which the economic activity is organized and carried out and other elements of technical and technological activities that allow achieving maximum profit, within the game of free competition.

Carefully watching the progress of human-social relations, we can easily observe the myriad of tests that confronts human society due to all the events related to its existence.

Therefore, across any field of human activity there has been, in an authoritative manner at first, some form of control which has become indispensable in all sectors of society development.

This phenomenon was due to the acute need expressed by society through its representatives, to know in every moment in detail the situation of a branch of social existence, both in a factual and a scripted manner.

Materials and methods of research

The business side of a society represented from the beginning the criteria for establishing the solid viability of the specific entity, thus showing a significant interest in this direction. In this manner, the control over all its forms has grown enormously and the phenomenon of active intervention in the restructuring of the economic system has also grown.

The frequency of the control, in all its forms, either internally or externally, either financial or fiscal, initiated the moments of establishing the necessary conclusions for conducting the next activities. Also, all control is meant to materialize the range of criteria considered in supporting programs and forecasts.

Within the institutional reform, an important element is the improvement of the existing public financial control system, where are prevailing the principles which are in accordance with the European best practices in the establishment, the management and use of appropriate terminology in line with the definitions and recommendations made by European institutions which assess the financial control system in Romania. It should also be noted that a precondition for having an appropriate financial control system is the existence of a coherent and comprehensive legal framework (legislative system and secondary regulations) defining the principles, structures and the functioning of the control system.

The measures to be taken in this area, aim clearly at the better functioning of the system to an auspicious end for the better preservation of the national entity's heritage.

The theoretical way of organizing and exercising financial control is attempted, within public institutions governed by the laws in force at that time, as well as the manner of putting into practice the normative acts for specific activities of proper financial control.

The issue of control and internal audit will be covered in a structure composed of four chapters. There are essential some clarifications in order to better understand both the concepts of control, audit, preventive proper financial control and internal financial audit as well as the links between them, and in practice it has been discussed the application of some theoretical concepts on conducting the audit mission.

The activity of preventive proper financial control is organized within all public institutions, according to their own laws, but based on the following *principles*:

- coordination and regulation of preventive proper financial control is done for all public entities by the Ministry of Public Finance;
- organizing and exercising preventive proper financial control is carried out by:
 - all public entities and for all operations on public finances and public property;
 - competent structures, as a whole, according to the legal framework;
- organizing preventive proper financial control is done in order "to ensure the integration of this activity, gradually, in the sphere of managerial responsibility."

Therefore, *the managers of public entities are legally obliged to:*

- organize preventive proper financial control and to keep track of commitments in the accounting department of financial-accounting specialty. Considering the nature of the operations,

the head of the public entity can decide its growth to other specialized departments initiated by legal acts or liabilities or other obligations of patrimonial manner are recorded;

- establish projects for operations which are subject to preventive financial control, supporting documents and their circuit, as per the legal framework, according to the nature and complexity of the operations included in the general and / or specific framework of operations subject to preventive control.

- designate the persons within the specialized departments who will carry, through visa, preventive financial control. This appointing act also includes the limits of the competences in applying preventive financial control. The appointed persons to carry out this work are different from those initiating the transaction subject to the visa.

The financial audit consists of checking and providing certification of financial statements by an independent competent professional in order to express its opinion on the veracity of the data contained in the annual financial statements.

Practice has proven that there is a potential conflict of interest between those who collect, process and summarize the bookkeeping information and the users of this information. Information users show a lack of trust in the information provided by accounting, as the authors of the bookkeeping information are not usually independent of conducted operations and annual financial statements, which casts doubt on the impartiality and objectivity of the accounting-financial unit of a company.

The veracity of the information contained in the annual accounts is questioned also because of the moral - professional qualities of some creators of accounting information.

Therefore, between the activity of information creators and information users we need to interpose the work of auditors who are meant to restore a reasonable confidence between creators and users of accounting information. Through this, audit helps to protect the interests of different categories of information beneficiaries.

Audit has the role to ensure information users on:

- a) compliance with generally accepted accounting principles and internal procedures established by management or public institutions;
- b) mirroring through accounting and financial statements of the true and fair image, clear and complete financial position, financial performances and changes in financial position.

The accurate image should not be confused with an exact copy of reality. The accurate image is the "image that can be trusted, which may be awarded credit." Ensuring an accurate image is dependent on following the principles of accounting regularity and sincerity.

Under the laws and regulations of their application, issued by the Ministry of Public Finance, the head of the public institutions approves the organizational and functional framework necessary for carrying out internal financial audit activities.

In the case of small public institutions, defined by the same legal provisions as "... institutions which carry an annual budget of up to the equivalent in LEI of EUR 100.0 thousand for a period of three consecutive years," the internal financial audit is carried out only in the form of regularly audit and is performed by personnel of specialized departments of internal financial audit from the Ministry of Public Finance.

The main tasks of the internal financial audit activity are:

- to fulfill its duties and tasks of legal provisions and rules for their application, objectively and independently, with professionalism and integrity;
- not to disclose data, facts or circumstances found during or in connection with implementation of actions for internal financial audit;
- to protect the documents based on which the internal auditing mission is conducted;

- comply with the Code of Ethical Conduct of the internal financial auditor;
- to improve their professional activity.

Although different, the concepts of internal control and internal audit have a number of elements that bring them closer and others which distinguish them, generating a lot of confusion sometimes even among specialists.

To clarify these concepts we consider necessary and useful to make a comparison, a synopsis in the form of a table, analyzing them from several points of view:

Table 1. Points of view – comparison [elaborated by the author]

| Ref. no. | Internal control | Internal audit |
|----------|--|---|
| 1. | <i>From an organizational perspective</i> | |
| | Integrated within the organization | Independent structure |
| 2. | <i>From a procedural perspective</i> | |
| | Continuous process Can be found in the structure of each s in management positions, being a component of each activity. | Planned mission Organized at the highest level |
| 3. | <i>From the perspective of the instruments used</i> | |
| | Consisting of a set of tools, techniques and procedures specific to control. | It is based on its own professional standards. |
| 4. | <i>From the perspective of the policies used</i> | |
| | Policies directed towards eliminating the risks. | Assesses control. Detect any faults in the evaluation of internal control. |
| 5. | <i>From the perspective of the main goal</i> | |
| | It is the basic objective of internal audit. Aims at the application of procedures in practice. Draws conclusions, establishes responsibilities and the materialization of conclusions. Evaluates the external environment because the world keeps changing. | It is the highest component of internal control. Helps the audited entity to achieve its goals. Draws conclusions and issues recommendations. Evaluate the entity's internal environment and adds value to its work. |
| 6. | <i>From the perspective of conclusions</i> | |
| | The conclusions are supported through law by the subjects of the control. The conclusions for the internal control are binding. The results of the internal control are communicated to the hierarchical manager and not to the highest level of leadership. | Audit recommendations based on field expertise can be considered gifts for internal control, although in general, they are not perceived as such. The conclusions of internal audit are optional. |
| 7. | <i>From a time perspective</i> | |
| | Permanent activity of risk assessment. | Regular activities, planned and approved in advance. |

| Ref. no. | Internal control | Internal audit |
|----------|---------------------------------------|--|
| 8. | <i>From a systemic perspective</i> | |
| | Integrated within the control system. | Integrated within the entity's internal control system, but also outside it (the operational unit can be separated from the internal control). |
| 9. | <i>Their perspective</i> | |
| | Looks at the entire organization. | The whole organization looks at it. |

No matter for whom or what the control is conducted, it is at the same time a process of discovering the past, appreciating the present and deciphering the future of a company in connection with its economic and financial performance.

Therefore, for a productive financial control a very good training of the authorized personnel is required, providing the necessary specialized publications, especially for understanding the legal framework governing general accounting and property for public institutions.

Managers of public entities, in order to put in practice the control function, have the duty, within the entities that they lead, to organize the work of internal control and proper financial control for preventing damage, waste, allocating inadequate financial and material resources, avoiding the creation of redundant or slowly moving stocks, efficient use of material and financial means allocated to its own activity or to subordinated units.

We can only hope that this paper will be of great use to those interested in this field and that we managed to give a clearer picture over proper financial control as a form of control carried out in public institutions, both theoretically and practically.

Results and considerations

To conclude, in order to remedy any deficiencies, but especially to increase control activities' efficiency, we have issued a series of proposals, as follows:

- providing control bodies with technical equipment of high technology and performance;
- avoiding the legal maze by simplifying the laws and documents used for exercising control;
- increasing objectivity of the internal hierarchical control;
- having the management of the entity interested in the continuing professional training of their employees;
- permanent organization of specialized convocation;
- periodic testing of the level of knowledge in the field of control.

In our opinion, as a final measure, I can state that for internal control the information / reporting system should be revised, at entity management level, in order to project certain lines of accountability, clear and permanent, not only to increase management accountability, but also to help it in designing their own control and signaling systems.

The practical application of financial management aims to ensure the best conditions for the act of decision, for this being required:

- a) optimal organization of informational flow (financial and economic information documents);
- b) economic and financial analysis of the results of the current period and immediate action;
- c) setting minimum levels of profit and profit rate, if no solutions of increasing profitability, the activities should be abolished and the funds redirected towards other profitable activities;
- d) inventory of all elements that may hinder or favor some or other activities;

- e) knowing the fundamentals elements of the demand and putting in practice the principle of maximum profit depending on local specificities;
- f) compliance with statutory and organizational provisions.

Conclusions

The role of management, of the manager in general, is very important in the operation of companies irrespective of their legal form. A component of business management, the financial management requires knowledge of legal norms regulating the activity of accounting, optimal organization of its use, management and permanent use of financial means based on the principle of maximum profit, as well as analyzing and ensuring the necessary capital for the next period, which is determined by choosing the optimal way.

Financial management refers to legal and administrative systems, as well as procedures established to allow entities to conduct activities so as to ensure proper use of funds in accordance with defined standards of probity and regularity. These activities include revenue growth, expense management, financial accounting and asset management. Efficient financial management requires topicality and legitimacy of expenditures, directing expenditures in accordance with the regulations, taking the necessary measures to prevent and punish any violation of law and to recover any damage caused by irregularities or negligence.

The financial auditor will prepare an annual report together with his own observations, showing whether the financial statements present an accurate image of the financial position, of the financial performances, of the bank's cash flows and other information related to the conducted activity and will analyze the practices and procedures of internal control and audit and if these measures are not appropriate, he will make recommendations to improve them.

Bibliography

1. Dragomiroiu R., Preda B.F., Hurloiu I.I., Mihai G., *Organization management activity efficiency by planning internal audit*, The 20th internațional scientific conference Knowledge-Based Organization, "Nicolae Bălcescu" Land Forces Academy Publishing House, ISSN 1843-6722, Sibiu, 2014;
2. Hurloiu I.I., Burtea E., Meruță A., Mihai G., *Integrated supply and trading systems in the modern economy*, The 20th internațional scientific conference Knowledge-Based Organization, "Nicolae Bălcescu" Land Forces Academy Publishing House, ISSN 1843-6722, Sibiu, 2014;
3. Hurloiu L.R., Burtea E., Hurloiu I.I., Meruță A., Preda B.F., Șerban M., Ștefan R.M. *Documente contabile – management, control, audit, clasificare și securitate*, Editura Print-Caro, Chișinău, 2014.
4. Nonaka I., Hirotaka T., *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*. Oxford: Oxford University Press, USA, 1995;
5. Șerban M., Hurloiu L.R., Ștefan R.M., Hurloiu I.I., *Situations referring to the organization, classification and management of economic data*, Annals of Spiru Haret University, vol. VI, București, 2015.