

# FINANCIAL CONTROL – CONCEPT AND FUNCTIONS

## CONTROLUL FINANCIAR – CONCEPT ȘI FUNCȚII

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**Abstract.** *The paper provides in-depth review of the concept of control and focuses on the definition, criteria for classification, specific forms, the various functions and the main goal of control. Control is linked with the key aspects of the modern management of organisations. The author emphasises that control is vital in ensuring the legality, efficiency, economy and reality of the documents issued and the transactions carried out by public bodies.*

**Rezumat.** *Obiectul controlului financiar îl formează actele și operațiunile emise sau înfăptuite de agenții economici, instituțiile publice precum și de alți participanți la viața economico-financiară a statului. În timpul controlului echipele de control trebuie să urmărească dacă actele și operațiunile care fac obiectul examinării îndeplinesc condițiile de legalitate, operativitate, eficiență, economicitate și realitate. Având în vedere interesul practic major al societății cu privire la modul de administrare a banului public și patrimoniului public și privat al statului considerăm că actele și operațiunile materiale supuse examinării de către echipa de control vor trebui să îndeplinească cumulative aceste condiții.*

**KEY WORDS:** *control, management, objectives of control, functions of control.*

Control has evolved and continues to evolve, as novel types of control emerge, due to the environment where it operates, which is, in its turn, constantly on the move, as a result of the advance of economic relations and the permanent evolution of market economy.

Reviewing the concept of control, one finds that it is a duty of the management, a function of leadership, a means of knowing reality and of correcting errors.

## RESULTS AND DISCUSSIONS

The notion of control derives from the latin expression “contra rolus” which refers to the examination of the original act against a copy given for this purpose to a specialist.

In specialised literature there exist other definitions as well:

- in the Francophone view, “control is an verification, a careful inspection of the correctness of a document.” (*Le petit Larousse. Dictionnaire encyclopedique*, Larousse, Paris, 1975.

- in the Anglo-Saxon view, “control is the action of supervising someone, something, a careful examination or the ability to lead, a tool used to regulate a mechanism” (*The New Merriam. Webster Dictionary*, Merriam – Webster Inc. Publishers, Springfield, Massachusetts, 1989).

The sense that is most commonly associated with control is that of “examination”, which is frequently associated with knowledge and enables the management to coordinate the activities within the organisation in a more economic and efficient manner.

Bertrand Fain și Victor Faure, in their work “La révision comptable” emphasise that “internal control consists in the rational organisation of accounting and the accounting service, aimed at preventing or at least finding, without delay, errors and frauds. ” (Fain, Bertrand, Faure, Victor, *Revizia contabilă*, Bucharest, 1948, apud. Marcel Ghiță (et col.), *Introducere în teoria și practica auditului intern*, Universitas XXI, Iași, 2004, p. 29).

Bearing in mind the notion of control and considering the evolving context of the economic environment to which it belongs, financial control can be defined as the relationship between certain situations under consideration and legal provisions at a given moment.

In view of the above, financial control is, by virtue of its results, one of the economic methods which provides the management with the most information for three interested parties, namely:

- the state and its economic policies;
- the entity itself;
- the partners, as it enhances mutual trust in conducting transactions.

**The main criteria for classifying the control activity:**

- the field where it is conducted;
- the content of the control;
- the objectives of the control;
- the scope of the control.

There are many types of control in the economic field, namely financial control, customs control, banking control, product quality control, environmental control, work safety control, etc.

Financial control, even though it may take many forms, is animated by a single goal, common to all these forms, namely to examine the state of an activity at a given time in relation to the given objectives.

The activity is classified mainly according to the following criteria:

- a) in terms of the moment of control as compared with the moment of the transaction;
- b) in terms of the structure conducting the control;
- c) in terms of the duration and intensity of the control;
- d) in terms of the extent of the transactions.

*In terms of the the moment of control as compared with the moment of the transaction, financial control is classified into:*

- preventive financial control;
- ongoing operative financial control;
- subsequent financial control.

*In terms of the structure conducting the control, it can be:*

- financial control organised and exercised by state institutions;
- financial control organised and exercised by the entities own structures, as financial self-control.

*In terms of the duration and intensity of the control, it is divided into:*

- continuous control;
- cyclic control.

*In terms of the extent of transactions, control can be classified as:*

- total control;
- control by samples.

### **Objectives of financial control**

„The objective of financial control, as a component of economic control, is to provide the state with information on the way in which public companies manage fixed assets and financial resources, the manner of creation and spending of public funds, the assurance of financial balance, the achievement of economic and financial efficiency, the development of the national economy and the realisation of the welfare programme.” (Dan Drosu Șaguna, *Tratat de Drept financiar și fiscal*, All Beck, Bucharest, 2001, p. 330).

The multitude of activities involved in the dynamics of the society's development directly impact on the content of control, whose object and scope is the extent of the implementation and achievement of the preestablished objectives, with the goal of correcting the deviations from legality and ensuring that similar deviations will not occur again.

The specific objectives of control, which are vital for the progress of society, include the appropriate and efficient use of public and private funds, the development of rigorous management, the legal conduct of administrative activities and the expeditious disclosure of information to authorities and the citizens by means of reports.

Achieving the objectives of control is in fact the guarantee of the adequate use of public funds; this cannot be achieved without high-level control systems.

### **The forms of control**

Control systems can take the following forms:

- external audit;
- internal audit;
- management control.

The management process can be defined in relation to time: before action, it provides orientation; during action, it adjust; following action, it evaluates performance to draw useful lessons.

These three phases can be designated as: definition of objectives,

coordination, postevaluation.

Postevaluation, which is achieved by the control, signifies the assessment of the outputs. Its purpose is to provide a lesson so that the errors found may not be repeated and that strong points can develop further. It is aimed also at assessing the actions and decisions that were taken, especially the merits of those in charge, if they have sufficient scope for action.

Control, as command, is the *ensemble of mechanisms that direct actions*. Most experts agree that this type of control, as is understood in management, is related to a persons attempts to direct or influence the actions of other persons.

Control is an engineering of organisational influence; it organises the system of management that governs the technical function of each entity or organisation.

One can now refer to several types of control:

*Execution control*

It includes processes and systems designed to assure those responsible that their repetitive actions, issuing from their authority, will be, are and have been applied according to the proposed objectives, thus exempting the responsables from having to coordinate the actions directly.

*Strategic control*

It consists of processes and systems that enable the management to decide on and adjust strategies. Strategic control gains major significance where strategy is not limited to a single decision and generates lasting dominant positions, called continual adjustments. Nowadays there is a trend that causes certain specialists to talk about agile entities.

*Management control*

This type of control must guarantee that current decisions are coherent with the strategy. The purpose of the management control is not to define strategy but to allow its implementation in time and space. Objectives, in this respect, aim:

- to guarantee that managers orient their actions adhere to their missions as stipulated in the strategy;
- to guarantee that in this manner the execution control organises the critical tasks for the adequate implementation of the strategy.

The management control consists of processes and systems that enable the management to be assured that the current strategic options and actions will be, are and have been coherent, especially thanks to the execution control.

The leadership of a manager is based on information that allow the evaluation of a programme according to its objectives. The common tools are the *budgetary control*, which enables the monitoring of the compliance with the budget, generally on a monthly bases; and the *control boards*, which contain data, not exclusively related to accounting but also to financial and technical aspects, that are updated at various moments. Such information does not only document the situation and monitor productive or capable indicators, but also signals future likely events, meaning that it is possible to alter them before

examination. When directed to the hierarchy, such financial and non-financial data constitute the “reporting”.

One may consider that the traditional approach of the management control conceals the technical system in order to bring to the forefront the management based on the financial data of budgetary control. The modern pattern confers on the management control the duty of expanding the vision by analysing the performance of the technical processes assigned to managers.

### **Functions of control**

In terms of its organisation and mode of exercise, and the role and objectives it pursues, financial control achieves several functions: the evaluation function, the preventive function, the documentation function, the recovery function, and the pedagogical function.

#### *The evaluation function*

It focuses on actions and operations of assessment of the situation at a given moment, of the results obtained at the end of a period, of the progress of the activity under circumstances of normality, legality and efficiency. By this function of control, one can assess against actuality and legality conditions, those difficulties, deviations and orientations that give rise to the actions that produce negative actions.

It is a function that allows a comprehensive, real, accurate and concrete assessment of the controlled activity. In addition to the assessment, this function also involves suggestions, proposals and the establishment and implementation of measures aimed at improving the results of the controlled activity. by supplementing the evaluation of the results with steps that facilitate improvement, control actively contributes to eliminating the causes that have generated deviations and to improving the economic and social activity.

It can then be stated that the evaluation function includes the cycle of the management process and provides an answer to the question “What have been the outcomes of the work done?”

A second function is the *preventive* one, which consists of a series of steps taken by the control bodies with a view to avoiding and eliminating frauds before they can cause negative effects, by identifying and removing the causes that generate or facilitate them.

The exercise of this function contributes to the prevention of the tendencies that require corrective measures. This function is derived from the fact that control is meant to focus attention on key objectives, ranked according to national priorities, which should prevent and eliminate the waste of human effort and material means and ensure economic efficiency.

### **CONCLUSIONS**

Through these actions, control is designed to prevent the operations that are unlawful prior to the company’s initiation of the actions. This action ensures the legality of actions and operations and also focuses on their advisability,

necessity and economy.

*The documentation function* facilitates the quantitative and qualitative knowledge of the objectives of social and economic development. Control is an integral part of the management process, as it provides data and information in support of economic and financial decisions.

*The recovery function* presents the major importance of the financial control and consists in the action to identify and recover the damage and take appropriate action against the offenders.

Such enforcement actions are taken either directly by the control bodies or at their proposal by an oversight body or by the judiciary.

The faults identified in the controlled body or the natural persons must be stated clearly by the control bodies, in strict compliance with the legislation in force at the moment the deviations occurred.

*The pedagogical function* has a formative character, designed to generalise positive experience. Through this function, control helps to improve the level of qualification for adequate resolution of duties. It is necessary that the controller have solid professional training and enjoy credibility.

These functions are accepted as being real, practical and operational. In achieving these functions, control takes on the features specific to them.

The *focus* of financial control is the documents issued and operations executed by economic entities, public institutions, and other organisations involved in the state's economic and financial activity. During control, the control teams must verify whether the documents and operations subject to the examinations adhere to the requirements of *legality*, *operativity*, *efficiency*, *economy* and *reality*. Given the society's practical interest in the management of public funds and the state's public and private assets, it is necessary that the documents and operations subject to the examination of the controllers must fulfil all the requirements mentioned above.

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