

## FINANCIAL AUDIT OF FINANCIAL CONTROL VERSUS - AN OVERALL ANALYSIS

Gheorghe MOROSAN

Stefan cel Mare University of Suceava, 720229, Romania  
morosang@seap.usv.ro

### Abstract

*In our society, the audit is regarded as a branch of financial management conducted to confirm the accuracy of financial reporting in a company, but also to help the company's management, financial and the financial control is regarded as a perfect knowledge of things, a finding practical realities and their comparison. The purpose of this paper is to analyze the picture of the two concepts by presenting the differences and the similarities of them. The paper presents an evolution of the two terms in terms of Romanian organizations.*

**Key words:** financial audit; financial control; Romanian organizations; internal control system; evolution

**JEL Classification:** M40, M42

### I. HISTORICAL BACKGROUND ON CONTROL AND AUDIT IN ROMANIAN ORGANIZATIONS

From the perspective of Romania's membership to the EU market (ie after 2007 till now) appreciate that the whole issue of control and / or audit was conducted in various Romanian organizations, structured and strengthened within about two centuries (or more) depending on historical project on the subject analyzed. Our analysis on the evolution of successive control / audit management Romanian organizations, taking into account the manner in which the Romanian management reported / connected to achievements in the field occurred in the world (from the works of Taylor and Fayol until now) to share further three periods:

▪ *Romanian organizations to control issues at the time of the works of Taylor and Fayol*

Briefly, we can say that the system of internal control has two components, namely: internal control and internal audit.

The first evidence of the existence of structures of state control in the Carpatho-Danubian-Pontic, dating from the fourteenth century. States newly established Romanian fiscal control has structures formed by officers whose main role was to ensure the collection of taxes and tithes from the people.

These structures were taken from the royal authorities Mongols, Moors, migrating and invading peoples who, during both controlled Romanian space, organized a sustained activity tracking all kinds of taxes imposed on the native population. The situation has become an attractive after the establishment of Ottoman rule, the imposition by it of an oppressive and enslaving tax regime consists primarily of liability to looting imposed Romanian Principalities.

Once long ago, there were Romanian space control bodies that operated under various structures / functions / forms in relation to: the moment of serving the interests of time, the stage of social development, the organization of economic structures as well as other considerations.

A parity check financial our country is done simultaneously with the appearance of the first Romanian feudal states, where it was necessary to establish a financial system.

The concept of control occurs early medieval times, the rulers of the Romanian Countries decided the amount of the taxes that are collected from taxes, services or properties and their usage.

While controls were imposed on the management of revenues metropolitan monasteries, giving an account of the country and the first chancellor. Later, around the year 1730 he formed a committee of 10 ecumenical which controls the administration of income and their monasteries.

State revenues begin to delineate those of the rulers from the sixteenth century, forming the country's treasury separately, and the first significant fiscal reforms, agrarian and administrative, appear under the reign of Constantine Mavrocordat in Moldova and the Romanian Country (for late eighteenth century).

The first period may be divided into two sub-periods: from (roughly) 1550 to 1750, when we find "books for treasury accounts", and from 1750 to 1831/1832, it appears that the advisory authority, in addition to treasury and advice composed of seven boyars. This appeared in the Romanian and Moldovan State, due to the accomplishment of reform fiscal, administrative and agriculture.

Establishment and use of funds was made to the rulers in its sole discretion, with no clear rules well defined. So, this time in Romanian history is characterized by lack of control rules on the use of revenues collected from the population and therefore the lack of a financial system (per whole of this period discuss financial control perspective, and especially with reference to macroeconomic level during this period internal control type business entities and / or business remained dependent on the organization's own accounts).

Another period is between the years 1831/1832 and 1858. This period is dominated by the application of the Organic Regulations, which Romanian Principalities put on a financial organization, all is now set some public financial control rules. Introducing the new financial system was awarded the Public Assemblies of the two principalities right to approve levying the taxes and spending, using for the first time the concept of "budget". He later founded public control, which in the year may investigate any costs to the state and to "testify" receipts. This body was the origin of financial control in Romania and subsequently became the Ministry control over the accounts of exercising control, but not whole but dispersed.

Organic Regulation is inaugurated a simple system for recording financial transactions, receipts and payments, serving put public finances in order, and the control exercised by administrative bodies, so-called public control in Wallachia and Moldova Administrative Council, which had mission to investigate in detail the operations made by officers of the country and prepare the ultimate control of the Public Assembly which found irregularities and abuses and denounce their ruler, so that it punish those proved guilty.

In 1864 under the reign of king Alexandru Ioan Cuza it is established the House Accounts with full power to check the state's financial documents.

In 1858 were implemented in Romania budgetary principles of the Paris Convention, on which was promulgated on November 28, 1860, the first public accounting regulation, which contributed to the introduction of a certain order in public finances and facilitated their inspection. This makes administrative and legislative control. Administrative control is done by recording accounting transactions related ministries administration, handling public funds and property. Legislative control compels ministers to present each session reckoning their operations during the past year, which had to be supported by documentary evidence.

In May 1862 he created the General Inspectorate of Finance Service, under the Ministry of Finance, with the task of making unannounced on account of all the agents of the Ministry of Finance and report irregularities results. The law of 24 January 1864 established as a specialized and independent body, the High Court of Accounts, which have to exercise judicial review of the budget. Since that time, control was performed after separation of powers, with: control of the executive, judicial review of the High Court and the control of the org legislative year.

Therefore, we conclude by saying that by the time of the work which laid the foundation of scientific management globally and in Romania (the work of Taylor and Fayol, Fayol 1925, Taylor 1967), problems control organizations was one predominant Romanian accounting and control by the government experienced a tortuous as rigor and consistency of enforcement mechanism.

▪ *Romanian organizations to control issues in the 50s*

Since 1929, the Accounting Law is introduced in Romania double entry accounting system, mandatory for all public administrations accounting records and concluding statements and budget execution accounts and handling public money, only after this time has become possible to control and knowledge of the financial situation of the country. This law makes a distinction between accounting and swindlers, being able to determine liability in case of fraud.

After 1918 was established the Financial Guard in Romania, which was then dissolved in 1932 to be re-established throughout the country. Financial Guard, according to art.1 of the Rules of service and organization was "a fiscal control body organized militarily, which is part of the central administration of the Ministry of Finance" (Bostan, 2003).

Financial Guard was a strong institution in all developed countries at that time, same situation currently existing in most EU Member States. In Romania, the Financial Guard control any means of transport with goods of all kinds, from oil to spirits and production units. Control was enacted, so there was no need for special permission. The responsibilities of Financial Guard, the most important were: control balance sheets and discharge management and control of state revenues. Documents issued findings had the force of law.

No doubt that promoting science management in Romania - in the form of concepts / disciplines of scientific organization of labor and / or management and rational management of the business, including with respect to the control function and / or audit problem - due to some scientists , theorists and teachers. Since the 20s of last century, were introduced in the training of young specialists' first disciplines that included aspects of financial management and accounting organization, (especially under the aegis of ASE Bucharest) among different theorists in the field of management and administration IMPS mention organizations (Tacu, Tacu, & Saizu, 1986):

- VM Madgaru which, along with other concerns known, openly campaigned for the development of management as a distinct field of economic sciences in Romania (wrote pioneering works in this field: *Theory and technique of commercial and industrial enterprises*, 1915 *Introduction to the practical study of industrial and commercial enterprises*, 1916, etc.) (Tacu, Tacu, & Saizu, 1986). It is understood that the type cited published

works Madgaru other Romanian authors at the time were inspired / influenced by socio-economic realities in other European countries such as France, Italy, UK etc., The Great Depression of the 30 affected both Western Europe and Romania, so the structure of the Romanian school of management at that time was strongly connected to the realities of the Western world;

- V. Slăvescu who had direct concerns and contributed significantly to the development of organizational discipline and corporate financing (works: *financing economic enterprises*, 1927, *issue of industrial coalitions Cards and trusts*, 1927, etc..) (Tacu, Tacu, & Saizu, 1986);

- PP Dulfu who had major contributions in developing IROM activity, but also wrote outstanding works in this field (*Specialization in business economy* in 1928, *the general progress of work and work organization national* in 1928, etc..) (Tacu, Tacu, & Saizu, 1986, pp. 217-222);

- C. Bungeteanu which also was directly concerned with work organization in the Romanian companies of the time, he wrote on the subject reference works: *private companies. Principles of organization. Rate of recovery* in 1934, *commercial and industrial enterprises. Organization. Operation. Results*, 1937, etc (Tacu, Tacu, & Saizu, 1986, pp. 217-222);

- M. Manoilescu which, along with the concerns of other areas has supported and promoted new trends in scientific organization of work (work: *Course economics, organization and rationalization*, 1934, etc.) (Tacu, Tacu, & Saizu, 1986, pp. 217-222).

- *The issue of control in Romanian organizations during the centralized economy (50s - 90s)*

Since the introduction of the centralized economy in the Romanian control and audit issues in various types of organizations experienced significant changes, the one assuming the role of monitoring and centralized control, some attributions of internal financial control and self-management were still kept in the Romanian enterprises.

Between 1944 and 1947 nationalization occurs NBR, introduce economic control, credit control and use monetary reform.

From December 1948 Internal Financial Control Department was founded in ministries, central and local organizations, institutions, and so on, and duties transferred to the control preventive financial control accounting, in September 1949 the State Control Commission was established.

Between 1950 and 1958 there have been some changes in the activity of the Ministry of Finance and internal financial control. It was founded and price controls, the Committee for prices.

Law no. february 1973 led to the establishment of the High Court of Financial Control for 1974, by Law no. 9 to give a new regulation preventive financial control. Since 1977, regulations have modified the data since 1970.

- *The issue of control in Romanian organizations in the pre and post EU accession (the 90 - present)*

Following the 1991 Romanian Constitution is reestablished Court noting that exercises control over the formation, management and use of financial resources of the state and the public sector. In the law and jurisdictional exercises Court (Constitution of Romania, 1991).

Nr.94/1992 Law on the organization and functioning of the Court of Auditors was republished and updated until today, according to the needs that have emerged since then until now.

Since 1999, the Romanian control system is introduced the concept of "internal control and internal audit" entities in the public domain.

Creation of the National Agency for Fiscal Administration, according to Government Ordinance no. 86 of 28 August 2003, in October 2003, as a specialized body of the central public administration, became operational on 1 January 2004.

In the interests of harmonization with European standards in the Ministry of Finance, through a special order approved new methodological rules for the Financial Control Unit for the state. We underline that this type of financial control is carried out on autonomous, national companies, national companies , companies in which the state directly or through an institution or public authority acts as a shareholder, but also to other operators in terms of financial and tax obligations to the state. We must emphasize that these changes occur after 14 years of the Order of the Minister of Economy and Finance nr.316/1991 on work rules and rules on financial control unit tasks (Order no. 889/24 June 2005 nr.604 Official Gazette of 13 July 2005). Much later, control has evolved in the sense of "budgetary control" supervision by step from production to that of an instrument of political forecasting company by monitoring income and expenditure budgets (Moroşan, 2013).

As Romania EU institutions, rules and tools applied by the Commission on Audit control and the prevention and management of each organization / entity management theory and practice (including financial accounting perspective) had to quickly adapt to norms, rules and procedures applied in Western countries.

When referring to the reliability of the instruments used by the company management to achieve goals through internal control system (ICS), the theory recommends so-called "reasonable certainty" that can be hoped

that the "purpose" of such controls, between different requirements for SCI as compared theoretically recall (Price Waterhouse Coopers, 2008):

- normal requirements of the company provide that management internal control system to be efficient and therefore cost of this system is not disproportionate to the benefits that can be generated;
- most internal controls tend to be oriented normal operations except for the extraordinary;
- is possible to detect human error in performing internal control, due to negligence or distraction staff evaluation errors and misunderstanding of work instructions;
- the system of internal control to be circumvented by collusion between managers and employees, among others internal or external company;
- it is possible that a person responsible for implementing the system of internal control to abuse their position, for example jumping some control procedure;
- it is also possible that the procedures used to become obsolete due to changing economic and financial conditions, with obvious consequences for reducing the efficiency of the whole system of internal control.

## II. EVOLUTION OF AUDIT ACTIVITY AND AUDIT CONCEPT

Audit has its roots from the V<sup>th</sup> century in ancient Greece, where the audit of accounts was first attested as control proceeds / payments involving public funds (Grosu, et al., 2013).

In ancient times the main object of accounting is to protect the integrity of the property and its periodic inventory was one of the methods already used.

With the increasing complexity of business / organizations need to develop practices occur accounting / audit by placing certain sets of standards and rules. The purpose of this international standard of auditing is to Establish rules and to offer recommendations regarding the concept of the degree of significance as well as to the connection between the degree of significance is and the risk of audit (Turcan, Bostan, Mates, Socoliuc, & Grosu, 2008).

By the late sixteenth century the practice audit was mainly meant to just check people / structures which had financial responsibilities, since 1900, the audit objectives are gaining new meanings, so (in addition to checking the annual financial statements) audits begin to include physical verification of assets of the organization, the purpose being to prevent errors and fraud.

In the Western world, as the individualization of management as a science distinct (Taylor, 1967) (Fayol, 1925), from the twentieth century in England and the U.S. institutional foundations of what we call today "audit" and / or "auditing" (first England requires all companies to publish annual audited balance sheet of an independent body, and then the New York Stock Exchange requires all listed companies to submit annual financial statements certified by an independent auditor). As noted previously, the Romanian school of management in the first half of the last century was strongly connected to the realities of the world, in Romania, the term audit was introduced after 1900, wanting harmonization of Romanian international ones.

Summarizing, we can say that the *audit* is to examine the activity of an enterprise / organization by an independent professional in order to determine whether the entity complies with existing regulations and laws in the field and whether or not the organization complies with certain quality criteria (which one is the position them to specific standards existing in that it activates). The accounting framework in compliance with the National and International Accounting Standards must be thoroughly observed during the control and audit of the balance sheet (Grosu & Bostan, 2012).

Taking into account the definition cited above still remember certain features and/or general type requirements specific to any audit work (internal, external, of a corporation, public institutions, social organizations, etc.)

1) *The audit is designed as a professional examination.* Here it is envisaged that the audit should be covered by the rules and procedures by a professional auditor to have regard to knowledge and information subject to its examination and also to constantly report audit practices and procedures. Professional character audit also takes into account the existence of organizations entitled to issue rules and monitor their implementation.

2) *The audit aimed at information systems.* Audit covers different types of information that can be both analytic and synthetic, historical information or forecasting, internal information or external, standardized or non-standardized financial audit but nevertheless remains associated with foreign accounting information.

3) *Audit seeks an opinion responsible and independent.* Auditor should be neutral and independent of the company that audits for the opinion to be responsible and objective. The auditor's opinion may be limited to a simple assessment or can be completed by some recommendations.

4) *Audit relating to certain quality criteria.* In financial accounting can meet the following quality:

- Regularity - which requires compliance with the rules, guidelines, principles and standards;
- Sincerity - requires compliance with rules, guidelines, principles and standards;

-Effectiveness - targeting three key elements: economy, efficiency and effectiveness.

5) *By audit is aimed at increasing the usefulness of the information.* Principal contribution made by auditing information is increasing credibility and confidence.

6) *The audit must comply with the legislation in force in the country in which its headquarters audited.*

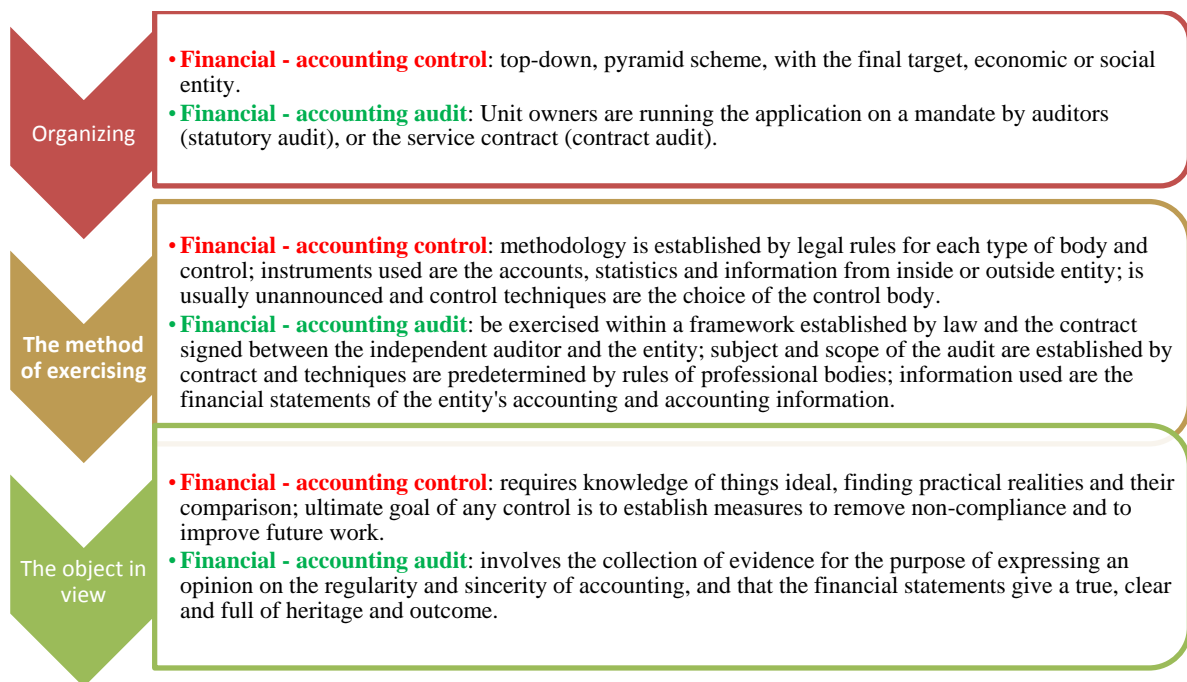
### III. FINANCIAL CONTROL VERSUS FINANCIAL AUDITING

Referring to adaptation and / or evolution of different financial audits Romanian management, still remember some issues of interest to decision makers in various organizations:

A. Traditionally, audits applicable to business organizations in Romania focused on the financial component of the entity, targeting senior decision maker is to provide a more accurate and / or complete a scan as between the factual situation and accounting situation. With other words, he may find that accounting systems and internal controls are operating effectively or that is not working effectively (Zaiceanu & Hlaciuc, 2013). In other words, the work of auditing the financial statements of Romanian companies targeted goals of the following type:

- To ascertain and certify true image reflection of the entity's financial position, performance and changes in it;
- To express an opinion as to whether the financial statements reflect a true and fair view and are in accordance with a financial reporting framework by the audit report;
- To maintain the quality and consistency of the accounting system to provide real information contained in the financial statements;
- To ensure optimal use of the accounting information that is presented to the user as credible;
- To appreciate the performance and effectiveness of information systems.

B. For a period of time (until the early '95) management practice in Romanian business organizations were familiar with phrases like "financial accounting control", "internal management control" and the like, only later was accepted / taken the term "auditing". In our opinion, the two notions are distinct issues, but also elements of comparability (depending on the organization, the exercise of specific activities and your purpose) in figure 1. synthesize the parallels between financial audit and financial control.



**Figure 1 The parallels between financial audit and financial control**

Source: Tulvinschi, 2008.

C. Following the global crisis in 2008, as occurred numerous bankruptcies, fraud and willful misstatements in the accounts of large corporations (notice is valid for U.S. and various EU member states, including the current situation in Romania) associated responsibilities financial audit increased greatly in complexity.

Including Romania due to proximity function rules and mechanisms of the EU, taking into account the provisions imposed by the IAS / IFRS, auditing applicable Romanian organizations have clearly defined responsibilities of the type (Horomnea, 2010, p.71):

- Verify compliance with the conceptual framework of accounting, including internal procedures established by management entity;
- Declares the application of the general framework for preparation and presentation of financial statements prepared by the International Accounting Standards Board (IASB);
- Check and certify the correct reflection in accounting of financial statements, their image accurate, clear and complete throughout a financial year.

#### IV. CONCLUSION

Audit management company offering an overview of its current situation, correction of errors and / or fraud prevention found and so that does not happen again in the future the same errors and / or fraud. Auditing is a critical examination of the company to provide verification of the facts required both internal users and external users of accounting information embodied in a final report attesting the mission done.

Financial control aims to identify the ideal stuff, finding practical realities and comparing their ultimate goal of this is to establish measures to remove non-compliance and to improve future work, the financial accounting audit aims to collect the evidence for the purpose of expressing an opinion on the regularity and sincerity of accounting, and that the financial statements give a true, clear and full of heritage and the outcome of the exercise.

#### V. REFERENCES

1. Bostan, I. (2003). *Control fiscal*. Iasi: Polirom.
2. Fayol, H. (1925). *Administration Industrielle et Générale*. Dundot.
3. Grosu, V., & Bostan, I. (2012). The financial audit of companies operating in the metalworking industries. *METALURGIJA*, 559-562.
4. Grosu, V., Hlaciuc, E., Bostan, I., Socoliuc, M., Tulvinschi, M., Zaicéanu, A., et al. (2013). Optimization the role of financial and internal audit in accounting fraud prevention. *European Research Development in Horizon 2020* (pp. 233-265). London: Lumen media.
5. Homomnea, E. (2010). *Audit financiar – Concepte, standarde, norme, Editia a 2-a revăzută si actualizată*. Iasi: Tipo Moldova.
6. Moroşan, G. (2013). *Controlul financiar bancar*. Bucharest: Didactică și pedagogică.
7. Price Waterhouse Coopers. (2008). *Il controllo interno per l'attendibilità del financial reporting. Strumenti di riferimento per il management*. Il Sole 24 Ore.
8. Tacu, C., Tacu, A., & Saizu, I. (1986). *Studiul întreprinderilor în învățământul superior economic (perioada interbelică)*, Anuar, Tomul III, Centrul de Științe Sociale. Iași: Universitatea "Al.I. Cuza".
9. Taylor, F. W. (1967). *The Principles of Scientific Management*. London: W. W. Norton.
10. Tulvinschi, M. (2008). *Auditul financiar – abordări teoretice si practice*. Iasi: Sedcom Libris.
11. Turcanu, V., Bostan, I., Mates, D., Socoliuc, M., & Grosu, V. (2008). The Planification Of An Audit Of Annual Financial Situations From The Viewpoint Of The International Standard Of Audit 300. *The Annals of The "Ștefan cel Mare" University Suceava*, 136-141.
12. Zaicéanu, A., & Hlaciuc, E. (2013). The Applicability Of Bayes' Theorem In Audit Risk. *European Journal Of Accounting, Finance & Business*, 100-111.
13. \*\*\*Ordin nr. 889/24 iunie 2005, M.Of. nr.604 din 13 iulie 2005