

STUDY ON INTERNAL CONTROL EXERCISED AT A COMMERCIAL COMPANY IN THE FIELD OF METAL CONSTRUCTIONS

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ABSTRACT: *Internal control is an essential process for any organization, with the role of ensuring the efficiency and transparency of internal operations, as well as protecting organizations against financial and operational risks. In an increasingly complex and constantly changing economic environment, organizations are required to implement internal control and audit mechanisms that prevent fraud, errors and optimize overall performance. Internal control refers to the systems and procedures implemented by an organization to ensure that its operations are carried out in accordance with internal regulations and policies, thus protecting the organization from financial and reputational losses. These systems are essential for preventing fraud, calculation errors and other risks that could affect the stability and credibility of the company.*

KEY WORDS: *control, company, documents, management, recommendations*

JEL CLASSIFICATIONS: *B 21, M 42*

1. INTRODUCTION

In this paper, we will explain the importance of internal control in an organization, its role in risk management and performance improvement. We will also analyze a case study applied to a commercial company, to observe how these processes are implemented in a real context.

The paper will include both a theoretical presentation of internal control concepts, based on international regulations and standards, and a practical study of their application in a specific company. Through this approach, we will highlight the importance of an effective control system in improving performance and protecting the organization against risks.

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2. GENERAL PRESENTATION OF THE COMPANY (NAME, FIELD OF ACTIVITY, SIZE, ETC.)

The company has been operating since 1993 and currently has over 100 qualified employees, with whom the company produces a wide range of products ranging from furniture accessories, indoor and outdoor metal furniture to INOX railings, respecting European environmental and quality standards, and is one of the largest companies in the field in Hunedoara County and offers a wide range of products for renovation, home and garden improvement. Among the available products we mention: tools, home and garden decoration products as well as products for bathroom and kitchen design.

The company's field of activity includes retail and wholesale of products serving both individual customers and local and European entrepreneurs in the field of construction and design. The company focuses on offering quality products at above-average prices and excellent customer service.

The company is a medium-sized company, with approximately 100 employees, and is located in an active commercial area in Petriţa, serving both the city's residents and those from all over Europe.

3. ORGANIZATIONAL STRUCTURE OF THE COMPANY

The company's organizational structure follows the typical model of a commercial company, with a clear hierarchy for managing internal operations. It includes the following positions and departments:

1. Company Director: He is at the head of the organization and has overall responsibility for the company's management.

2. Commercial Department: Includes personnel responsible for sales, inventory management and supplier relations.

3. Financial-Accounting Department: Responsible for managing financial flows, receipts and payments, accounting and reporting.

4. Human Resources Department: Deals with recruitment, employee training and management of labor relations.

5. Logistics Department: Ensures inventory management, product procurement and deliveries.

6. Production Department: Ensures the entire product production process.

7. Internal Control Department: It is an independent unit that deals with the evaluation and improvement of internal control procedures and with monitoring compliance with legal and internal procedures.

4. COMPANY DEPARTMENTS, WITH EMPHASIS ON THE INTERNAL CONTROL DEPARTMENT

Within the company, internal control has the role of ensuring that the company's internal processes are efficient, secure and compliant with internal and external regulations. It is responsible for:

- Monitoring compliance with sales and inventory management procedures: Ensuring that products are managed correctly, with accurate records and that losses caused by errors or fraud are avoided.

- Risk assessment and implementation of corrective measures: The department deals with identifying internal risks (financial, operational, legal) and establishing preventive and corrective measures.

- Reporting to senior management: The internal control department prepares reports and proposes measures to continuously improve internal control within the company.

The company has a total of approximately 100 employees, distributed in the following departments:

- Commercial Department: 5 employees (customer advisors, promotion staff).
- Financial-Accounting Department: 5 employees (accountants, financial manager).
- Logistics Department: 10 employees (manages stocks and supplies).
- Human Resources Department: 3 employees (recruitment, training).
- Production Department: 70 employees.
- Internal Control Department: 2 employees.
- Other administrative functions: 5 employees (including support staff, cleaning, security).

5. THE ROLE AND RESPONSIBILITIES OF THE INTERNAL CONTROL DEPARTMENT WITHIN THE ORGANIZATION

The company's internal control department plays a key role in protecting the company from internal and external risks by implementing an effective control system.

The main responsibilities include:

- Verifying the correctness of financial operations: Ensures that all financial transactions are recorded correctly and inventory management is accurate.
- Evaluating internal sales and logistics processes: Ensures that products are delivered and managed according to established internal procedures.
- Preventing and identifying fraud: Internal auditing identifies any possible fraud or abuse and recommends corrective measures.
- Collaborating with management to improve processes: The department works closely with department managers to implement measures to improve internal processes.

In conclusion, the internal control department plays a key role in ensuring good financial and operational management of the company, protecting its resources and helping to increase overall efficiency.

6. THE IMPORTANCE OF EFFECTIVE INTERNAL CONTROL IN PREVENTING RISKS AND IMPROVING PERFORMANCE

An effective internal control system plays a crucial role in preventing risks and improving the performance of an organization. The benefits of effective internal control include:

1.Reducing financial risks: Internal control measures help prevent fraud, financial errors and tax non-compliance.

2.Operational efficiency: Control procedures optimize the use of resources, reducing costs and improving process efficiency.

3.Regulatory compliance: Adequate internal control helps organizations comply with legal and environmental regulations, avoiding sanctions and legal risks.

4.Improving transparency: By ensuring a well-defined control system, organizations can provide a clear and transparent picture of their financial and operational performance.

5.Increasing stakeholder confidence: Investors, authorities and customers have more confidence in an organization that has effective internal control, which can lead to a better reputation and stronger financial performance.

7. DESCRIPTION OF THE INTERNAL CONTROL PROCESS APPLIED WITHIN THE COMPANY

Within the company, internal control is essential to ensure transparency, operational efficiency and compliance with applicable legal regulations.

These processes are regulated by internal policies, which comply with international standards (such as COSO) and national legal requirements

The internal control process includes several key stages. At the company in question, the internal control system is effective as it consists of several interdependent components:

1. The control environment. This represents the basis of the internal control system and reflects the management's attitude towards control, ethics and integrity. It includes the organizational structure, management style, human resources policies and the level of competence of employees.

2. Risk assessment. The company aims to identify and analyze the risks that may affect the achievement of objectives, such as financial, operational or legal risks, and to establish measures to mitigate them.

3. Control activities. These include concrete procedures and mechanisms such as approvals, authorizations, checks, document reconciliation, segregation of duties and periodic asset inventories.

4. Information and communication. This company, having an effective internal control mechanism, assumes the existence of clear communication channels, so that relevant information reaches the responsible persons at the right time.

5. Monitoring Internal control must be evaluated periodically to identify deficiencies and implement corrective measures. Monitoring is carried out through internal audit and other forms of control.

6. Interviews and questionnaires. Interviews and questionnaires are used to gather additional information from employees about the implementation of internal procedures and about possible gaps in internal control. These are usually carried out with key personnel in financial and operational departments.

- Interviews with key personnel: employees from different departments are discussed to better understand how internal controls are implemented and whether they are respected in practice.
- Questionnaires: These are used to collect opinions from employees regarding the effectiveness of control procedures and perceived risks in internal processes.

Table 1. Questionnaire for assessing internal controls

Question	Possible answers
Do you follow payment approval procedures?	Yes / No
Există riscuri de fraudă în procesul de achiziție?	Yes / No
Are there risks of fraud in the procurement process?	Yes / No
Is the efficiency of the financial reporting process adequate?	Yes / No

Within this company, internal control took several forms:

- operational-current control, carried out during the course of activities;
- subsequent control, which verifies activities already carried out;
- financial-accounting control, focused on the correctness of records and financial operations;
- management control, which analyzes the use of resources -preventive, which aims to avoid errors and fraud;

The role of internal control in the company in question is a major role in ensuring the stability and performance of the company. By implementing an efficient internal control system, management can make informed decisions, prevent losses and increase the trust of investors, partners and state institutions.

Internal control also contributes to increasing financial discipline, increasing staff accountability and improving the company's image on the market.

At a certain time interval, established by management, control tests are performed. These are specific procedures used to verify that the control measures implemented by the company are effective and respected. These tests can include both financial and operational procedures, and are essential for assessing the correct functioning of internal controls. Examples of control tests include:

- Compliance tests: Check whether internal control procedures are followed correctly.

For example, it can be checked whether invoices are approved properly and in accordance with the company's internal policies.

- Performance tests: Analyze the performance of departments and operational processes to determine whether they are efficient and comply with the company's internal standards.

- Traceability tests: Check whether financial transactions are correctly documented and recorded in accounting systems. Compare financial documents, such as invoices and payment orders, to verify that they comply with internal procedures and external regulations.

Internal control is an indispensable element for the proper functioning of the company. It should not be seen as a coercive activity, but as a management support tool, oriented towards prevention, efficiency and performance. In a dynamic and competitive economic environment, the implementation and continuous improvement of the internal control system is an essential condition for the success and sustainability of a commercial company.

8. IDENTIFYING PROBLEMS AND GAPS IN THE COMPANY'S INTERNAL CONTROL

Following a senior audit of the company in question, several problems and gaps in the internal control system were identified. These affect the efficiency and transparency of internal operations and may increase financial and operational risks. The main problems identified include:

1. Lack of adequate inventory control

- **Problem description:** One of the most significant problems is inventory management. In some cases, discrepancies were recorded between physical inventories and those reported in the company's IT systems. These differences can be caused by inventory errors, the lack of a clear inventory management procedure or, in some cases, improper handling practices.

- **Impact:** Discrepancies between physical and recorded inventories can lead to significant financial losses and create problems with procurement planning.

2. Insufficient control in the procurement process

- **Problem description:** In the procurement process, gaps were identified in the approval of orders and in verifying their correctness. For example, some purchases were not thoroughly checked before being processed, and some suppliers were not evaluated in accordance with the company's internal policy.

- **Impact:** These gaps can lead to unnecessary or inefficient purchases, and the lack of a clear approval process can create an environment conducive to internal fraud.

3. Non-compliance with external regulations

- **Problem description:** Some internal processes are not fully compliant with external regulations, such as tax laws and personal data protection regulations. For example, procedures for collecting and processing customer data do not fully comply with the requirements of the GDPR.

- **Impact:** Non-compliance with external regulations can lead to legal sanctions, financial losses, and significant reputational damage for the company.

4 Ineffective communication between departments

- **Problem description:** Poor communication was identified between the financial and operational departments, leading to delays in decision-making and some misunderstandings regarding responsibilities and procedures.

- **Impact:** The lack of good communication between departments can reduce the efficiency of internal processes and can lead to conflicts and misunderstandings that affect the performance of the organization.

9. RECOMMENDATIONS FOR IMPROVING INTERNAL CONTROL PROCESSES

The following corrective measures were proposed to improve the internal control system:

1. Improve inventory management

- Recommendation: It is recommended to implement an automated inventory management system, which allows real-time tracking of physical and computerized inventories. Also, inventory procedures should be more rigorous and carried out periodically.

- Impact: This will reduce the risks of errors and fraud and improve the accuracy of inventory data, which will help in more efficient procurement planning.

2. Improve compliance with external regulations

- Recommendation: A complete review of internal procedures should be carried out to ensure compliance with external regulations, in particular with tax legislation and personal data protection regulations (GDPR).

- Impact: This will prevent legal sanctions and improve the company's reputation with regulators and customers.

3. Optimizing communication between departments

- Recommendation: It is recommended to organize regular interdepartmental meetings to ensure more efficient communication and to quickly resolve any conflicts or misunderstandings. Also, implementing a project management system can help coordinate activities between departments.

- Impact: This will improve collaboration between departments and contribute to better coordination of internal activities.

10. CONCLUSION

Following the additional audit carried out at the benchmark company, a number of strengths of the internal control system were identified, as well as multiple gaps that may jeopardize operational efficiency and compliance with legal regulations.

Among these, inventory management and procurement control were highlighted as the most vulnerable areas.

Recommendations for improving internal processes include the implementation of advanced technological solutions for inventory and procurement management and the creation of a more rigorous framework for compliance with external regulations.

Implementing these measures will help the company improve internal performance, reduce financial and legal risks, and ensure greater transparency to stakeholders. Also, more robust internal control will contribute to creating an organizational culture based on responsibility and ethics.

Following the analysis of the internal control process at the benchmark company, the following general conclusions can be drawn:

1. The importance of an efficient internal control system. An efficient internal control contributes to the prevention of fraud, errors and the improvement of the

overall performance of the company. In this company, the implementation of an internal control system has brought a series of improvements, but there are also vulnerable points that require additional attention.

2. The main gaps identified. Within the framework of the additional control, several gaps were identified, such as: inventory management, lack of adequate control in the procurement process and non-compliance with external regulations. These deficiencies can affect the efficiency and transparency of internal processes and can create financial and legal risks for the company.

3. The importance of compliance with external regulations. Another important point highlighted in the study is the need to comply with external regulations, such as tax legislation and personal data protection. The company needs to invest more in employee training and continuous review of internal procedures to ensure compliance with these regulations.

It is recommended that the company in question implement technological solutions for inventory and procurement management, and create a more rigorous framework for compliance with external regulations. Also, better coordination between departments and stricter control over procurement will significantly contribute to reducing risks and improving the organization's performance.

In conclusion, internal control is an essential tool for the functioning of an organization and for ensuring transparency and compliance. The correct implementation of audit and control processes can help identify and minimize risks, thus optimizing the overall performance of the company.

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