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Performance of Financial Control

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Abstract. *Financial control contributes to the augmentation of efficiency, both in one's business and the controlled institutions, appealing to its well-known methods and techniques. If properly targeted, these methods can lead to outstanding achievements. The overall purpose of the debate focuses on evincing the means of quantification regarding the efficiency of the control process*

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1. Introductory remarks

Efficiency reflects certain concrete manifestations of the principle of rationality in the economic activity. Efficiency criteria express the necessity that the involved factors be used under optimal conditions, which signifies that the achieved outcomes should be superior to the efforts put in.

In the case of financial control, efficiency is determined by its contribution to preventing and eliminating dysfunctions, improving organisation and the management of the decision-making process and enhancing the overall efficiency of the economic activity.

Our view is that the efficiency of financial control must be assessed not in terms of the volume of the losses discovered and the sanctions enforced but, rather, in terms of the volume of recovered debts, of solved debits and outstanding credits, of available stocks which were capitalised as a result of the measures imposed after the completion of the enquiry.

Nowadays, it is deemed that the efficiency of control will be higher as long as more emphasis is laid on the prevention of misconduct and on recommending measures to regulate the controlled field.

The efficiency of the financial control is determined by the permanent relationship between two areas of action, namely: the preventive-operative area and the area of immediate capitalisation on the conclusions of the control.

2. Means by which financial control impacts the increase of economic efficiency

Through specific actions, financial control professionals play an important role in increasing the efficiency of the controlled economic entities. This confirms the basic principles that underlie and justify the carrying out of financial control when the focus is on organising and managing the whole activity in order to guarantee its profitability.

Financial control contributes to increasing the efficiency of one's activity, and of controlled entities, by implementing a range of established procedures and techniques. When properly targeted, these methods can lead to high performance. In carrying out financial control (according to M. Cocoară, *„Conceptul de eficiență…"* [The Concept of Efficiency …], in the journal Revista Controlul economic financiar [Economic and Financial Control], issue

3/1999, pp. 19-20) the following extremely simple yet equally effective recommendations must apply:

a. Financial control must not demand inadequate information and situations, which would require an allocation of time and create psychological strain, to the detriment of regular activity;

b. Financial control must consider the fact that economic phenomena and processes tend to be repeated to a certain degree, therefore at a given stage the same dysfunctions will be observed in most entities, which enables control agencies to identify them more rapidly and therefore to improve the efficiency of their own activity;

c. Financial control should be based on combined control methods customised to the specifics and particular issues of the controlled activity, which will allow the successive selection, as the examination process unfolds, of all the categories of dysfunctions.

In this context, the author quoted above (M. Cocoară) makes the following recommendations:

- The chronological control of the petty cash and bank-related documents must begin with the examination of the accounts 5121 “Cash at bank in lei” and 5311 “Petty cash in lei”, and then examine on a selective basis the documents pertaining to transactions which at first sight appear to be unclear;
- When any deficiencies are discovered, they will be recorded either directly in the objective that is analysed in the control brief or in the personal record;
- In order to clarify those issues which require discussions, the parties concerned will be invited, after a brief period, to save time, as this creates an opportunity to tackle several issues during the same appointment;
- To ensure that changes can be made during the period of control, in the first days the analysis will focus on accounts such as: “accounts payable”, “accounts receivable”, “suppliers of current assets”, “advance payments to suppliers”, “cash advances”, “suspense accounts”, “expense accounts”.
- If any deficiencies are observed, which require written explanations and the drafting of observation records, these documents will be prepared immediately or on the following day at the latest, to enable

the correction of the situation based on prompt actions taken during the control itself;

- The stage of analysis, discussion and conclusion involving the management of the entity will be scheduled for the last days of the control, except in serious cases of breach of law, such as violations that must be tackled without delay;
- Fines should not be imposed in the first days, to avoid the creation of a tense atmosphere;
- In setting the deadlines for preparing, submitting and motivating the models and reports, one should request the opinion of those who are tasked with preparing the documents and accept their submission within the time frame allocated to that specific objective. The tracking of the submission will be based on the operational notes made in the personal record book, which will specify the model, the person and the day the meeting is held;
- Financial control bodies must ensure that they avoid the creation of any conflict situations.

3. Financial control, in support of the management of the company

The realities of the modern society demonstrate ever more that the development of the market economy and its increasing complexity require the large-scale use of economic data as a foundation for decision-making to guarantee maximum speed of response and efficiency. Reliance of intuition alone tends to become a thing of the past.

Leadership in general and economic leadership in particular has become a science based on information of all types, which serve as the foundation for the numerous decisions regarding the use of material, financial and human resources. The complete exploitation of available information in the decision-making process can be achieved only within an informational economic system, designed as an overall set of means and methods of information collection, storage and use.

In this management context, financial control holds an important role, due to its capacity to retrieve information from source and to release it in a relatively short time, while simultaneously it contributes in applying decisions at all organisational levels and correcting the issues arising from erroneous adoption or implementation of decisions.

4. The efficiency of control

As noted above, economic efficiency reflects the outcomes of an economic activity, assessed in terms of the resources used to carry out that activity.

Financial control depends essentially for its execution on one determining and absolutely indispensable factor: the human factor. “In no economic activity as the financial control does the human factor play such an important role in achieving, under optimal and efficient conditions, the proposed objectives. This is because, due to its very nature, the control activity, in general, and financial control, in particular, places the one exercising it on a superior level to the one being controlled, a position which can become highly detrimental if used in an abusive or destructive manner. On the other hand, the system of interests which is automatically and almost involuntarily involved in any financial control, regardless of the structure and level of the examination, can have an impact on the conduct of the control activity under the strict provisions of the law and in compliance with the requirements which were a priori established for the control programs.” (Pereş et al., 2005, p. 322).

In approaching the issue of the efficiency of financial control we will start from the formula of efficiency, a requirement emphasised by recognised specialists in this particular field.

The ratio of the efforts and their effects (outcomes) is expressed by the following formula:

$$r_e = \frac{C}{T_e} \tag{1}$$

where:

r_e = efficiency of the analysed activities;
C = total efforts put in;
T_e = total achieved effects (outcomes).

When defined according to this formula, the efficiency of the analysed activity is highest when the ratio (r) is lowest. Efficiency can also be expressed by the reverse ratio (r'_e):

$$r'_e = \frac{1}{r_e} \qquad (2)$$

In this case, efficiency is highest when (r'_e), defined as the ratio of effects and efforts, is lowest. $T_{e,}$ the total effects achieved by conducting an economic activity is synthesised in the following mathematical relation:

$$T_e = \sum_{i=1}^{n} E(i) \qquad (3)$$

in which:

E(i) = the effect (i) achieved;

n = the total number of effects.

In practice, the total number of effects may be identical with the proposed effects, and in such a case efficiency (r_e) is equal with effectiveness (r_{ef}):

$$r_e = r_{ef} \qquad (4)$$

In most cases, however, the total of the effects obtained consists of the proposed effects and secondary effects, which may or not be consistent with the proposed effects. *The ratio of efforts and proposed effects, when lower than the ratio of the same efforts and the total effects achieved, defines the notion of effectiveness*. In cases when secondary effects add to the set of proposed effects, the effectiveness of the analysed activity increases, as the ratio:

$$r_{ef} = \frac{C}{T_e} \qquad (5)$$

becomes lower than the new ratio

$$r'_{ef} = \frac{C}{T_e + T_{ep}} \qquad (6)$$

where:

r'_e = actual effectiveness;

r_{ef} = proposed effectiveness;

T_{ep} = the total effects that are consistent with the proposed effects.

The actual increase of effectiveness results from the deduction:

$$\Delta r = r_{ef} - r'_{ef} \tag{7}$$

In cases when the secondary effects are consistent with the overall proposed effects, but are not beneficial, effectiveness decreases because the ratio $r'_{ef} = \frac{C}{T_n}$ becomes higher than the ratio $r_e = \frac{C}{T_e}$

where

T_n = the total negative secondary effects.

5. Quantifying the efficiency of financial control

Nowadays, most specialists (among them Professor Ion Pereş, PhD, of the West University of Timişoara and Professor Sorin Mihăescu PhD, of "Al.I. Cuza" University of Iaşi) emphasise that the efficiency of the financial control activity can be quantified in terms of the outlay of financial efforts required for performing the control activity in relation to the effects, which are also financial, identified as the total fines levied, the recovery of losses and any other financial and/or cash resources established and collected to the various budgets.

More important, however, for the financial control activity is to determine the qualitative efficiency that this particular activity provides to the organisation and the carrying out of the activities which were the focus of the examination.

This form of efficiency of the financial control activity, determined in the qualitative dimension of the overall economic activity, refers to the achievement of the overall objectives of the control activity, especially the guidance objective and, as part of this objective, its formative role.

To determine the quantitative efficiency, the following evaluation indicators are employed for the evaluation and assessment of the financial control activity and these indicators derive from the indicators of the overall economic efficiency, which are adapted to this area of research (Pereş et al., 2005):

• The total number of economic operators scheduled to be included in the control activity (N_t)

$$[N_t] = \sum_{i=1}^{n} N_{at}(i) \tag{8}$$

where:

n = the number of economic operators scheduled to be included in the control activity;

N_{at} = the total number of economic operators in a particular sector of the economy.

• The degree of inclusion in the control activity of economic operators (g_e):

$$g_e = \frac{N_t}{N_{at}} \times 100 \tag{9}$$

where:

N_t = the number of economic operators scheduled to be included in the control activity;

N_{at} = the total number of economic operators in a particular sector of the economy.

• The extent to which the scheduled control program has been conducted (g_p)

$$g_p = \frac{N_{ec}}{N_t} \times 100 \tag{10}$$

where:

N_{ec} = the number of economic operators controlled.

• The total amount owed by a controlled economic operator (S_t):

$$S_t = \sum_{i=1}^{m} S_t(i) + \sum_{j=1}^{n} S_t(j) + \sum_{k=1}^{p} S_t(k) \tag{11}$$

where:

m = total amount of determined losses;

n = total amount of fines;

p = total amount of other determined funds.

• The degree of collection, to the various budgets, of the amounts identified as a result of the control (g_i):

$$g_i = \frac{S_i}{S_t} \times 1000 \tag{12}$$

Si = the overall collected amount, calculated according to the formula below:

$$S_i = \sum_{i=1}^{m} S_i(i) + \sum_{j=1}^{n} S_i(j) + \sum_{k=1}^{p} S_i(k) \tag{13}$$

where:

m = total amount of determined losses;
n = total amount of fines;
p = total amount of other recovered funds.

• Contribution from the collected amounts to each 1,000.00 lei expenses incurred in order to perform the control (a_l):

$$a_1 = \frac{S_t}{C_t} \times 1.000.000 \tag{14}$$

where:

C_t = total expenses incurred to carry out the control

• Degree of use of the available time (g_t):

$$g_t = \frac{T_e}{T_d} \times 100 \tag{15}$$

where:

T_e = actual working time;
T_d = maximum available time.

Final note: *It must be noted that the quantitative efficiency and the qualitative efficiency of the financial control activity are also dependent on the period of time when the control activity was conducted.*

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