



SELECTION AND APPLICABILITY OF FINANCIAL - CONTROL RATE IN THE CONTROL PROCESS

Pl. Nedyalkova*

Department of Accounting, University of Economics - Varna

ABSTRACT

One of the most important elements of financial control process is financial – control rate. Therefore, the purpose of this report is to present a problem for the submission of appropriate criteria on which to make the choice and applicability of financial - control rate in the control process. It is marked and one more problem, namely: the drive to identify the interaction of financial - control rate with other building blocks of financial control process.

Key words: financial - control rate, control process

INTRODUCTION

The problem of presentation of appropriate evaluation criteria on which to make the very selection for the applicability of financial-control rate is existing for a long time and is still not fully resolved. The reason for this is the fact that even nowadays financial-control practice proves that in order to offer proper methodological approach for assessing the control rate it is necessary to define its place and importance to the control process itself. Taking into account the so presented circumstances, the aim of this report is to make some attempt to present appropriate criteria on which to make the right selection and assessment of the financial - control rate applicable in the control process.

To achieve the objective as formulated, put the following main tasks to solve:

1. To reveal the nature of the control cycle.
2. Delimitation of overall inspection process itself financially - control trial.
3. Presentation of the factors (criteria) on which choice is made himself financially - control rate.

THEORETICAL ASPECTS OF THE CONTROL CYCLE

A large part of the researchers present the

*Correspondence to: *Plamena Nedyalkova*,
Assistant, Department of Accounting, Economics
University, Varna, Bulgaria, E-mail:
plnedyalkova@gmail.com

control process as a control cycle. For example, *P. Ganchev* presents the control cycle built on the following elements: monitoring and investigation of the controlled object; comparison of the found state with the one that was envisaged; analysis of this condition; synthesis of the data on the factors and causes; presenting conclusions and evaluations; taking decisions for improvement of the activity and the application of sanctions. (2)

According to *K. Donev* the control process should be presented as a control cycle consisting of the following elements: identification of objects of control; selection of the rate of control; evaluation and measurement of control objects; comparing the state and the result with of the rate of control; detection of positive and negative deviations in the conduct of control objects, proof of the facts and revealing the causes of deviations; organization of the regulation. (3)

Other experts examined the control process on the basis of the control function. For example, *M. Dinev* determined the control function „as a combination of the following elements: determining the rate of the system; measurement of its actual state; the assessment of deviations from the rate; establishing opportunities for regulating the conduct of the economic system. (4)

To this group of specialists can be assigned also *Hr. Balabanova*, however, the elements

that according to this specialist smoothen the control function are: determining the expected state of the system; the assessment of rate of conduct of a certain system; measurement and identification of the actual state, analysis of the factors responsible for the deviations; comparison between the actual state of the selected objects and the selected rate; the establishment of corrective program or establishment of opportunities to regulate the conduct of the system. (1)

Exploring the nature of the control process, not only within the Bulgarian specialized literature, but considering the opinions of the specialists from the Anglo-Saxon control system, and also other specialists belonging to the Control system of mixed economies, it is found out that there are differences in the way of interpretation of the nature of the control process. Professionals belonging to the Control system of the mixed economies of the countries, present the control process as a function built on the basis of the following two main elements, namely: the control rate and the control sanctions. These views are shared by some specialists such as *Y. Simonyan (6)*, *V.T. Konyuhova (7)*, *A. Varfolomeeva* and others.

Viktor Brink, James Kashin and some of the others, who have studied in detail the matter of the nature of the control process, can be pointed out as representatives of the Anglo - Saxon control system. According to the views of those professionals, the control process is a set of certain stages through which, during its work, the controlling body passes. According to them these stages are: precise formulation and definition of the control objective; the establishment of final outcome; comparison between the actually found result and the pre-established goals; analysis and determination of the reasons for the found differences; defining managerial solutions; taking action and continuous reassessment of actions on the basis of the found results.(6)

The names of the prominent economists- *R. Haues*, *A. Shildar* and *R.Desan* - refer to the western specialists who devoted a substantial part of their studies to the English – Saxon control system. According to this group of researchers the stages of the control process are: commitment; planning, testing and evidence; assessment and reporting. (8)

On the basis of all above-stated, it can be found out that:

1. The so presented statements, demonstrate once again the existing difference among the separate control systems. The difference is evident in the fact that while the experts belonging to the Control system of the mixed economies put on pedestal the rate as an important building block in the control process and prove that the established control results are affected by its implementation, the specialists in Anglo - Saxon control system hold to a different opinion. In their research in the framework of control, the latter proved that the concept of the rate is not applicable to the control process. Instead, they use concepts such as standard, limit, frame and even criterion.
2. The practice also helps revealing the essence of the financial control rate, and presents it as an important building block for the control process itself. It may be assumed that when the financial-control rate is being examined only within the theoretical postulates, it has the appearance of an allotrope (not polished diamond), however, when it is refracted through the prism of practical reality it acquires the brilliant appearance, which is hardly to remain unnoticed. In other words, the theoretical aspects provide the general framework in which that concept may be extended. The practical aspects limit it within a certain range of influence depending on the control process itself. Namely, this limitation polishes the allotrope and provides this brilliant and precious look, which is only inherent only to the control process itself.
3. It is necessary to distinguish between the definitions of "control process " and "financial- control process". We assume that the term "control process" is a more general concept. It includes controls that is exercised by the whole state authority complying with the principle of separation of the authorities. Over the years its structural elements have undergone major changes and amendments due to the changing political and economic situation, not only in our country but also

worldwide. Today, the building blocks of the overall control process of our country are: (8)

- control environment;
- risk management;
- control activities;
- information and communication;
- monitoring.

The listed elements represent as well the building components of the entire system of financial management and control in our country. These elements were developed by the Treadway Commission in the U.S.A., and were initially approved by the INTOSAI (International Organisation of Supreme Audit Institutions) and under its influence were approved by the European Commission. During the pre- accession processes of our country to the European Union, there were imposed several requirements by the European Commission that had to be met. For example: in the negotiating Chapter 28 "Financial Control", it was indicated that in order Bulgaria to be an equal member of the EU it was necessary that the regulatory framework for our country be supplemented and harmonized with the international standards for internal audit and the European law. (10) The recommendations of the European Commission were taken into account and at the end of 2003 the previous Act on State Internal Financial Control (SIFC Act) was repealed, and the Act on Internal Audit in the Public Sector (IAPS Act), the Act on the Financial Management of the Public Sector (FMPS Act), the Act on the Public Financial Inspection (PFI Act) (9) were adopted.

The financial-control process is one kind of the control processes that the state authorities perform. It is presented as a function of the financial management of the state. It is done within the financial control subsystem and has a relatively independent body, other than the structure of the common control system. Its building blocks are part of the particularities and specificities of the components of common control process, but because of the specificity of the financial -public relations, which it controls, its building blocks are distinguished from building blocks of common process control.

ELEMENTS OF THE FINANCIAL CONTROL PROCESS

Still no definite answer is given by the specialists on the type and number of the items comprising the financial control process. For

the purposes of the development we assume that the elements of the financial control process are:

- Identification of the objects of the financial control, taking into account the pre-set goal and objectives.
- Choice of financial-control rate.
- Measuring, evaluating and analyzing the status of the objects according to the selected financial- control rate.
- Identifying any deviations resulting in the modification of originally allocated state of controlled object.
- On the basis of the provided facts clearly demonstrating the presence of deviations, to organize the regulating process associated with the preparation of a set of effects, for the purpose of overcoming and eliminating the admitted shortcomings and violations.

Based on all the above-stated so far, we believe that to reveal in depth the practical nature of financial-control rate it is necessary to examine its influence and relationship with other elements involved in building the financial-control process. Therefore, we focus on the particularities of each of the components, by presenting a brief description of each one of them.

- **Identification of the objects of financial control** – the precise defining of the object which will be within the supervision of the control authorities is crucial for the further development of the control process itself. We believe that the difficulty of determining the exact object is due to the fact that the financial control is subdivided into different types. Each type of financial control / namely: fiscal control, customs control, banking supervision, exchange control / bears the specificity and relies on defined financial-procedural rules. These financial-procedural rules are presented as a system built on the basis of the procedural rules of the tax, banking, customs and foreign exchange processes. According to the specificity of this type of process, covering also the specific type of financial control, the means of identification of objects subject to financial control are defined. For example: in the tax legislation of our country it is set that the person who any tax law provides to bear the tax burden is called a tax entity. It can therefore be regarded that against the state as an active entity are included physical

persons or legal entities defined as passive entities in the tax process. Tax object in the tax law is determined by the object itself (object) of taxation, i.e. it is everything that refers only to the taxation itself. (11) Based on the presented example we can determine that during the fiscal control process, there will be two entities between which one is the active entity / this is the state / the other is a passive entity / i.e. the very physical person or legal entity. The object of check during the fiscal control is the subject itself / the object /of taxation.

- **Selection of financial control rate** – generally said the rate is the basis for comparison within the financial control process. It may be assumed that these are abstract rules since a particular type of financial control rate is looked for to be applied to the specific control situation, on which to properly present the state and deviation of the object being controlled. Their heterogeneous character is a prerequisite for their being periodically evaluated and analyzed in order to ascertain whether the right choice on their application for the particular control process is made. Their development is beyond the powers of control authorities. They can be developed either by the bodies of the legislature of our country, but also by the officials holding managerial positions within the enterprise. For example: on the basis of Art. 181 of the Labour code (12) the legislator requires rules for the internal work order to be developed by the employer, while the rules which have to be observed by employees, shall be determined by the employer of the particular enterprise. In the very development of these standards mandatory legal norms regulated by the Labour Code should be considered, the secondary legislation governing its administration and all other regulations of our country regarding the legally bound employment relations. The legislator enables officials holding leading and managerial positions, to define specific and precise standards for settling labor discipline, the cases for searching and imposing the disciplinary and financial liability.
- **Measuring, evaluating and analyzing the state of controlled objects** is one of the most important elements of the financial-control process. The processes associated

with measurement, assessment and analysis of the state of the controlled objects require more precision by the supervisory authorities, since based on them a single answer for taking a particular control decision should be provided.

We assume that on the basis of actual measurement processes quantitative measurement units of the controlled object are specified, and using the evaluation process quantitative measurement units are presented in value (monetary) terms. Audit practice proves that not all control objects can be reliably measured and assessed during the very financial-control process. Also, since these processes are carried out by the controlling body itself, they have the features of subjectivism and inaccuracy.

In the control theory there is another view on the assessment process. Evaluation process itself is presented as a "subjective reflection of the facts and phenomena associated with the state finance subject to the assessment in the system of state financial control should be: the objectivity and accuracy of evaluation reports on the control checks, orders for deficits, size of harms, the adequacy of the system from influence, the effect of the monitoring being executed, etc. "(5) From the so presented statements, it can be assumed that they complement each other and reveal the distinctive quality of the control doctrine of the other available scientific knowledge. Subject to assessment are not only the material (physical) objects, but also the very extreme statements and control solutions.

Depending on the control situation as well as on the specifics of the controlled object the control authorities may apply different methods and analysis in order to establish the precise factual situation of the controlled object. The results obtained from the analysis determined the further course of development of the control process, since on the basis of them the deviations from the predetermined state of controlled object are found.

- **Identification of any deviations resulting in the modification of originally allocated state of the controlled object** – The process of detecting deviations is done by the supervisory authority, based on a comparison of the selected control rate, the

actually found position with the expected state of the controlled object. According to the view of some researchers, detection of deviations is a kind of diagnostic process. This process “is not just a technical calculation of deviations, but a creative attitude towards the received results with a search of the sources, the conditions giving rise to the phenomenon. (4) Opposite is the opinion of *K. Donev*, since it does not deny the importance and significance of the diagnosis of the objects of control, but he believes that it is necessary to present this process as a separate element of the control cycle and the latter not be presented as an ingredient part of another element. (3)

We believe that depending on the particular control situation and the specificity of the controlled object the diagnosing can be a separate element of the control cycle, but also it can be considered as part of the element of detection of deviations. Everything depends on the subjective assessment of the control body as well as its views on how to conduct the control process. In some control situations. It is required in order to find the deviation different methods and means for diagnosing to be used. In such cases, once these methods and means have been used their second usage and presenting them as an independent element in the control cycle is irrelevant.

During the last years the main problem that exists in the overall control process is improper collection, verification and subsequent storage of material evidence proving the existence of the abnormal behavior of the controlled object legally regulated. Many examples of court practice may be indicated and court judgments on the grounds of which acts were issued by the control authorities are repealed due to wrongly undertaken control activities related to the collection, processing and storage of material evidence during the control process.(13)

Therefore, we believe that in this fourth milestone of the control process it is necessary that the control authorities pay serious attention to the evidence revealing the actual state of the object. To make an assessment of their legality, thus still under the control process the legitimate rights of not only citizens but also of the state will be ensured. We believe that this way the

objective truth itself will be easier presented during penal proceedings.

- **Organization of the regulatory process** – it can be assumed that this process is the most intense and is the last stage of the control process. Often organizational regulatory process incorrectly is likened to the regulatory process itself, during which the measures of impact are applied. (3) The purpose of this last element is to systemize all the facts and evidence, formed during the entire control process. A distinctive feature of the organizational regulatory process is that it ends with drawn by the control authorities acts of findings. The acts themselves do not create obligations for party being checked. They ascertain the procedures being made, the found during the control process positive or negative deviations from the expected state of the controlled object; preconditions for the done factual and legal conclusions. In this last stage of the control process, the control authorities are required to submit the finalized act of findings, as well as the evidence gathered during the control process of the controlled object. Therefore, this is a precautionary measure on behalf of the controllers to assure that the controlled one is familiarized in writing about all actions taken by the control body during the control process, and also with the results found. Taking into account all the foregoing, it can be assumed that:
 - The sequence of occurrence and further development of elements constituting the financial- control process are not strictly regulated. Everything depends and is defined on the specifics of the controlled object by pre-set objectives and targets to be achieved during the inspection process. That is precisely what defines the control as a creative activity depending on the intellect, skills and abilities of its founder.
 - The right choice and determination of financial -control rate, are of essential use either for the control body, as well as for the controlled object. Also, the purpose of financial control rates is too broad, it includes besides the ability to identify deviations from the predetermined state of the controlled object, but also based on them the correct control decision is taken, and also serves to generate information necessary for subsequent control actions.

CRITERIA (FACTORS) FOR SELECTON OF FINANCIAL CONTROL RATE

In the control theory, it still has not been presented a conclusive answer to the question whether is it possible the choice of a particular financial control rate applied in the control process to be properly evaluated. We believe that the assessment process is applicable only when certain strict criteria are defined on the basis of which not only the choice of control rate itself, but also the quality of the final control decision based on the certain control rate, should be evaluated.

The correct determination of financial control rate always entails taking the correct control decision by the control bodies as well as achieving the pre-set control objectives and tasks. It is therefore of essential importance

that "the assessment" of the rate to be done in the very stage of its "design" (3), and not later on, when the control decision has been taken and the methods for influence have been set. We assume that assessment criteria may be provided in three main areas by the help of which the right selection for financial control rates applicable to the particular control process to be made.

The first area of evaluation is to determine whether the control body actually knows the specifics of the controlled object. The second area of evaluation is to determine whether proper and precise pre-set control goals and objectives are defined. The third area is to define the powers and duties of control bodies. That assessment may be performed using

Table 1.

Table 1. Criteria for selection of financial control rate

№	Criteria	Evaluation				
		2	3	4	5	6
1	Proper identification of the object of financial control. Does the control body know well the specifics of the controlled object i.e. its economic activity (if objects of the control are the Physical Persons or Legal Persons); Do the checked persons comply with the requirements of Art. 8, par. 4 of TIPC for big taxpayers and insurers					
2	Correct and precise formulation of predetermined financial control goals and tasks					
3	Correct and precise determination of the powers and duties of supervising bodies					

The so pointed criteria are the main factors influencing the selection of financial - control rate. If one of these criteria is incorrectly assessed and determined in advance, it should be borne in mind that the control rate, which is selected on the basis of these criteria is also incorrectly defined. The so provided evaluation scale enables the control bodies before entering the actual control action itself, to analyze the phases in which the whole predetermined control process needs to be executed. From a practical standpoint, the proposed evaluation scale can be applied to the checklists of control authorities.

Each of the set criteria is assessed at six-grade system. We believe that regardless of who is the control body, if before the start of the control process it puts an unsatisfactory assessment poor 2 on specific criteria, this is a reason either the controlling team to be

replaced by another one, possessing the ability to pre-analyze the control situation, or it is a prerequisite to terminate the realization of subsequent control actions.

The most favorable situation is when all criteria have been analyzed and evaluated with an excellent mark 6. This in turn means that the control body can properly determine the financial control rate, which will be the leading element in the entire control process. On the basis of it the deviations from the originally designated state of the control object will be revealed. Any other evaluation options specified of the pointed criteria determine the risk nature of the subsequent control process. The control process can be implemented, but there is not any guarantee of the correctness of his conduct and quality of the defined control rate. It may be assumed that this is the main

reason after the completion of a such risk control process the acts issued by the relevant control authorities to be revoked under judicial and administrative procedures.

After passing the selection stage in the determination of the financial control rate based on predetermined and specified criteria, the next stage is its implementation within the control process. The implementation of the control rate appears to be a stage having own specificities and characteristics. At first glance, it creates the illusion of something simple, but in fact it is one of the components of a the control process that requires strict consistency and accurate precision on behalf of the control object that actually is realizing it. The main task, which the control body faces at this stage is to determine ways in which the control rate can be realized. Practice proves that this task is not easy at all because the exact formula have to be determined on the basis of which its solution to be reached.

We assume that the selected control rate in order to be implemented properly it is needed that the control subject at this stage of the control process itself to have been analyzed well the control situation. Also it is required that the control subject has explored well and has been familiarized with the prescribed models for mass, social and economic conduct of the controlled object. This conduct is "formed as a general abstract, non-personified rights and obligations. When they are realized from their addressees the prescribed conduct is implemented through regular activities, through compliance with what is prescribed. However, when there is no execution of what is prescribed we have not true conduct."(14)

CONCLUSIONS

Based on all the foregoing, we believe that the social society is structured so that both rates are not in conflict. They are the two sides of a whole, because the presence and the simultaneous strict compliance, both of the unwritten and also the written control rates ensures the security and stability of the whole society. Their mutual action contributes to the regulation of all socio-economic relations

existing in the economic entity called society. Therefore, it can be assumed that the public relations can be regulated at different stages and moments of their occurrence and development. The main task, which the control body faces is to determine first what type of public relations will be monitored and on this basis to determine the methods, means and control rates, which will serve as its support in the implementation of the control process.

REFERENCES

1. Balabanova Hr., Administrative controls, VSU CH. Hrabar, 2004, p. 22.
2. Ganchev, P. Society and Control, Sofia, 1978, p.151.
3. Donev, K. Current problems of economic and financial control in NR Bulgaria, p.33.
4. Dinev, M. Control and regulation of economic systems, Sofia, 1986, p. 38.
5. Dinev, M. Social control and workforces, Profizdat, 1985, p.22.
6. Simonyan, L. Yu, Sociology of deviant behavior, Stavropol State University, <http://chairs.stavsu.ru/polit/courses/7.html>.
7. Konyukhov, T. Problems of improving the legislation on financial control in the Russian Federation, ch. Journal of Russian law, 2008, № 2, p. 48.
8. Hayes, R., A. Schilder, R. Dassen, P. Wallage. Principles of auditing: an international perspective, London. 1999, p.108.
9. Law on Financial Management and Control in the Public Sector - Prom. SG. br.21 10 March 2006., am. SG. br.42 5 June 2009.
10. Chapter 28 "Financial Control"- www.minfin.bg/bg/page/178 .
11. Stoyanov, I. Tax Law, Fenena 2008, p.28.
12. Labour Code - Prom., SG. 108 of 19.12.2008, SG. 109 of 23.12.2008, in force from 2.01.2009, amend. No.. 35 of 12.05.2009, effective of 12.05.2009, SG. 41 of 2.06.2009, effective from 1.07.2009, amend. and supplemented. No.. 103 of 29.12.2009, in force from 29.12.2009
13. № 1503 Decision on the 2007 inventory of Plovdiv Administrative Court.
14. Kumanova E., Nature of the dispute, Science University of Rousse, 2009, s.22