CONTROL PROCESS AND FINANCIAL CONTROL

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Summary: *This paper explains the elements of control process through which managers respond to new changes in the environment, as well as their influence on further development of the organization. This paper shows the system of financial control as one of the most important control systems in a company through which managers control financial resources within the organization.*

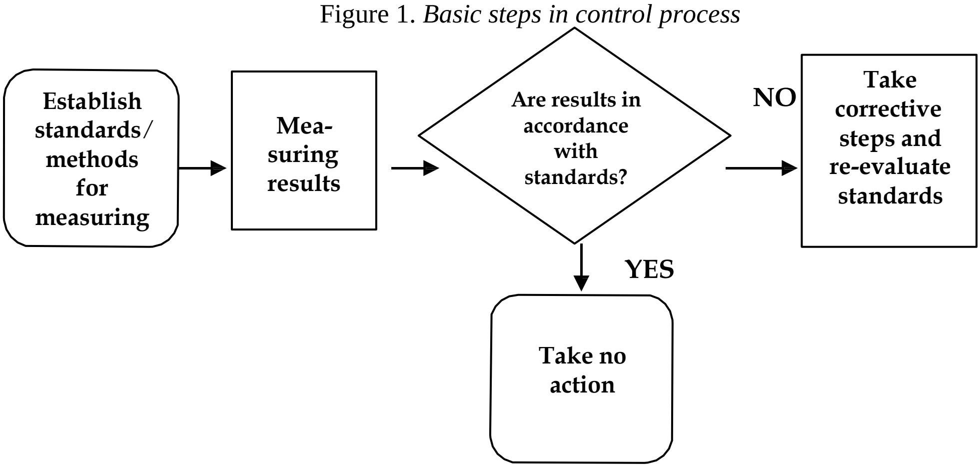
Key words: *control, process and financial control*

Elements of control process, standards and methods

Managers' decesion making is closely linked with probloems, i.e. situations where there is apparent difference between desired state and realistic state of certain phenomena. [1] Control is a process where we establish whether real activities and planned activities are identical. It is the final management phase where – based on achieved results - we establish whether those results are in accordance with certain predefined standards.

If the results are not up to standards, it is necessary to intervene with adequate corrective measures. In case the standards are too high or too low, we need to correct the standards, not our activities. The following graph shows the basic steps in the control process set by Mockler [2].

Figure 1. *Basic steps in control process*



By using control, managers can face new changes in the environment and they can face the influence of those changes on further development of the organization. Having said that, the manager's role in the process of designing control systems, in identifying key result areas and strategic control points is crucial. The following decisions are also of vital importance: what should be controlled and to what extent in order to avoid possible dissatisfaction, both with workers as well as with managers. Information, certainty, risks, probability and uncertainty are crucial for decesion making. [3]

The aspects of a certain unit or a certain organization that need to function efficiently in order for the whole unit or organization to be successful are called key result areas. In the text that follows we lay out some key result areas for production, marketing, human resources management, finances and accounting.

Table 1. *Standars used in functional ares for measuring results [4].*

Production	Marketing	HR management	Finances & accounting
Quality	Sales volume	Relationship with workforce	Capital
Quantity	Cost of sales	Workforce fluctuations	Inventory
Cost	Costs of promotion	Absence from work	Flow of capital
Results of individual costs	Results of individual sales person		Liquidity

By identifying strategic control points we establish critical spots in the system where we either perform control or gather information. This method directs the attention straight towards the most important elements of a certain operation.

Managers use control to measure efficiency and the level of success of a certain business process, they compare results (quantity, quality, time dimension) against investments (invested labor, material, time). By controlling how successful the effects are we compare achieved results, in accordance with preplanned goals of the organization. An adequate control system must have other purposes apart from its very own existence, it must improve business operations of the organization. A good control system must be adequate, adaptable, reliable, acceptable, and certainly understandable in order for us to know why this control system exists at all, and how to use it towards improvement of business process.

Tavcar explained control from the point of view of carriers of control (owners, managers, syndicates, groups, individuals) in cases of preventive (in advance) and corrective (following) control. [5].

Table 2. *Control by carriers and by concepts*

	PREVENTIVE CONTROL	CORRECTIVE CONTROL
OWNERS	Tend to limit long term investments in research and development in order to maximize profit	Fire manager because the organization faced loses in previous period
MANAGERS	Regular control of machinery reduces chances of failure and break down cases	Modern technological procedure in order to prevent spoilages in production

	PREVENTIVE CONTROL	CORRECTIVE CONTROL
GROUP	Newly employed is upon arrival informed of what is expected of him (norm increase)	If newly employed does not follow the group, they make his life difficult until he leaves the group
INDIVIDUAL	Before travelling abroad, check your passport so you won't be rejected by the passport control	Finds that job was not done properly and undertakes to do that same job again

Financial and budgetary control

The system of financial control is one of the most important systems of control in a company, and through this system managers control company's financial resources.

Financial reports (balance sheet, income statement and cash flow statement) show the results of an organization within a certain period. Further, through those statements managers find out where it is necessary to implement corrective steps, and bankers and financial analysists can make decisions whether they should invest in a certain company or not.

Financial reports are used to monitor liquidity, general financial state and profitability of the organization.

Balance sheet shows assets, liabilities and the net value of an organization. Assets of a certain organization comprise everything, from monies in the bank up to companies *goodwill* on the market. Assets consist of current and fixed assets. Current assets comprise: monies, claims, securities and inventory, assets that can easily be traded for cash with reasonably predictive value, in a reasonably short period of time. Fixed assets show the monetary value of equipment, real estates, patents and other items regularly used in organization's business process.

Liabilities consist of current liabilities and long term liabilities.. Current liabilities comprise debts, short term debts and unpaid taxes that is due to be paid within the given fiscal period. Long term liabilities comprise: mortgages, bonds and other debts that are being repaid in installments. The difference between total assets and total liabilities is the net value of an organization.

Balance sheet of an organization is the review of financial results achieved in the previous period and it offers managers information on the previous period net income.

Cash flow statement shows where the money (cash or otherwise) comes from throughout the year and how it is disposed of. This statement shows how much money has been invested, but it does not show either income or loss.

Budget as a monetary term, is a tool used tor plan and control the activities on all the levels of the organization during a certain period of time, most often one year. It can show information on capital and profit of the organization, therefore it is often used in organizations that are profit-oriented. Most budgets are prepared in order to help decision makers (decisions regarding income, cost, profit and investments).

EXAMPLE – How to make your budget work for you [6].
You must make sure you have worked out your budgeting strategy.
You must make sure your budget is in accordance with expected goals.
You must make sure you are using solid and valid info when creating budget.
The process of budgeting as such must be done through cooperation and participation of as many representatives as possible.
Make sure your budget is goal-oriented.

We have two types of budget in business organizations: operating budget and financial budget. Operating budget shows what goods and services are perceived by the organization to be used in the budget period. Operating budget consists of: budget of expenditures that explains what we spent our money on; budget of income that serves to measure sales and marketing efficiency; and budget of revenues, also called the main budget, and it connects the budget of expenditures and the budget of income into one statement. Financial budgets show how much money the organization is about to spend within the budget period, showing, at the same time, the source of the money.

Audit

Audit is the process where we compare achieved results with budget. External audit, i.e. review of financial reports by audit firms, established whether the organization had used, in a proper way, generally accepted principles of accounting. Contrary to external audit, internal (operating) audit is performed by members of the financial sector of an organization. This type of audit helps managers to evaluate operative efficiency of the organization, as well as to evaluate the implementation of its business policies.

External audit

There is an ongoing discussion whether the same accounting firm can be both consultant and auditor of a certain company, performing at the same time the advising role and the objective role of an auditor. In order to be on the safe side, accounting firms have tried to avoid this problem by deliberately splitting those two activities into two completely separated activities. [7].

As an integral part of their auditing, an audit company performs the following:

1. check the quality and reliability of the internal system of client's accounting control;
2. take part in client's inventories; and
3. provide necessary proof that the client had organized both internal and external audit. [8].

Audit firms put forward their professional opinion whether financial statements forwarded to various users are objective and true, or not. Audit firms do not 'guarantee that financial reports are absolutely correct.'

Auditor's report is of crucial importance because it helps reduce the so called information risk of those designed as users of the financial report. Information presented in financial reports must give us the opportunity to compare them, i.e. the same type of information must be presented in the same way, with same criteria for evaluating measurement in accounting.

This is the reason why reports are made in accordance with generally accepted accounting principles. Independent audit of those reports is always being done in accordance with widely accepted standards of audit.

Auditors are required not only to give their opinion regarding information that stem from accounting data, but to form an opinion – within reason – of additional data that are much more subjective in nature.

It is necessary for auditors to be masters of the following skills: accounting and auditing standards, administrative skills, analytical skills, consulting skills towards clients, in-depth knowledge of the industrial sector where company operates, loyalty to auditing business, knowledge of clients business processes, communication skills, work efficiency, intellectual abilities and capacity, permanent education and inclination towards acquiring new knowledge, management of risks in audit, marketing and sales of services, human resources management, cooperative skills and precision at work, etc.

The extent of additional belief required from auditors varies from client to client. Some users insist on audit, i.e. on the highest possible degree of belief in accuracy of balance sheet information; others might find it enough to gain insight into financial reports *(Review)* that offer much lower degree of belief in regularity of data in financial statements.

Internal audit

Internal audit can be done yearly, or every three to five years. The first step is to study the industry where the client operates, then to ascertain what the latest trends and expectations are, what are the chances the product on the market, influence of technical development on the industry, what political and social factors might influence the industry, etc. [9].

The second step in internal audit is to evaluate the current and the future position of the firm within the industry, to ascertain whether the company has maintained its position, whether it has expanded its share on the market, what the competition is like, etc. In order to get answers to all those questions, the company might decide to research the competitions' position on the market, their development, buyers reactions, and other factors that might affect the company's position within the given industry.

The next step for the company is to re-evaluate the basic goals and main policies in order to decide where it wants to be in three, five or ten years. After this re-evaluation, the company might decide to audit its organization, policies, procedures, programs, equipment, financial position, personnel and management. This audit should identify all the deviations from goals and it should enable the company to re-set the majority of its major and minor plans.

Conclusion

Managers use control to measure efficiency and the level of success of a certain business process, they compare results (quantity, quality, time dimension) against investments (invested labor, material, time).

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