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# INNER CONTROL WITHIN THE NON-BANKING FINANCIAL INSTITUTIONS

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**ABSTRACT.** The non-banking financial institutions take an extremely important place inside the financial market and therefore play an appreciable role in the economy. Taking into account the specific nature of the operations that these operators are authorized to develop, it is necessary for their activity to be subject to an efficient internal control and also to be well-structured. To assure the organization and functioning of an efficient control inside all the non-banking financial institutions, the authority for regulation and supervision of the specific market, namely the National Bank of Romania has adopted a compulsory regulation for these operators, with reference to the inner control. The organization and development of inner control inside the non-banking institutions is a responsibility of their board councils, which can assure themselves-by means of an efficient inner control - that the activities developed inside the respective institutions are according to the legal regulations and internal procedures and at the same time the accomplished operations make efficiency and profitability.

## **1. The regulation of the activity of non-banking financial institutions**

A special place within the operators on the Romanian financial market is being occupied by the non-banking financial institutions. The non-banking financial institutions are juridical entities set up with the view to develop, with a professional title, activities of credit of a certain nature, especially regulated and whose financing resources come from both proper resources and the borrowings from the credit institutions, from other financial institutions or, in case, from other regulating resources. In accordance with the Romanian regulations, the non-banking financial institutions can develop the following credit activities: granting credits, including, without being limited to: expenditure loans, mortgage credits, real/firm credits, microcredits, financing of trade transactions, factoring operations, discounting, lumps; financial leasing; issuing of guarantees and assuming of engagements, including to guarantee the credit; granting the credits by receiving goods for keeping, namely pawn by means of pawn-shop; granting credits to the members of a non-patrimonial association, organized on the basis of free consent of the employee/retired people, namely houses of mutual insurance; other forms of financing resembling to credit. The non-banking financial institutions can also issue and administrate credit cards for clients, having also the possibility to make mandate operations in the relations with other non-banking or credit institutions tied to credit activity.

It results therefore that the activity of non-banking financial institutions is a more special one, having an impact on the financial market, for which reason the activity of these operators is subject to both some general regulations applicable to the trade companies and some specific regulations issued by the National Bank of Romania, in its capacity of an authority of regulation and supervision of their activity. One of these regulations, specific to the activity of the non-

banking financial institutions refers to the organization of inner control and the administration of significant risks.

## **2. Objectives and structure of inner control developed inside the non-banking financial institutions**

The inner control of a non-banking financial institution can be defined as being a ceaseless process to which the board council participates, as well as the managers, the staff, by which is given a reasonable ensurance to attain the following targets: the development of activity in conditions of efficiency; the supply of credible information, relevant, complete and timely to the structures implied in taking decisions inside the non-banking financial institution with the legal framework and the proper regulations.

In order to achieve its targets, the inner control organized inside the non-banking financial institutions must be structured and stressed as organizing and functioning, on at least the following *elements*: the recognition of role and responsibility of the board of directors as well as the managers of non-banking financial institution; identification and evaluation of significant risks; activities of control and separation of responsibilities; information and communication between the functional structures of non-banking financial institution; monitorizing and correction of deficiencies.

## **3. Responsibility of organizing the inner control**

The legal reponsability to organize the inner control inside the non-banking financial institution belongs to their board of directors. For a good administration of the activity specific to non-banking financial institutions, their boards of directors are supported by a few internal bodies, organized by means of their decisions.

One of the these internal bodies that functions within the framework of a non-banking financial institution is *The Committee of risks administration*. This is a permanent Committee made up of at least three members and which develops its activity following a inner regulation approved by the board of directors. This Council board of risks administration organized within a non-banking financial institution has at least the following statutory attributions: ensures the information for the members of council concerning all the problems and the significant evolutions that might influence the risk profile and the results of the institution; the development of some adequate procedures for the identification, evaluation, monitorizing and control of significant risks; the presentation towards the members of the board of directors of some enough detailed and timely information, which to allow them to know and evaluate the performance of executive management in monitorizing and controlling the significant risks, according to the procedures approved already, as well as the general performance of the respective institution; the regular ensurance of some information of the members of board of directors concerning the exposures of the institutin to great risks and the immediat information in case of apearance of some significant changes in the current or future exposure of the institution to the respective risks.

There is also a *Committee of audit* that functions inside of every non-banking financial institution, according to the statutory requests. This internal body is a permanent committee

having an advisory function and is made up of at least three members and functions following a proper regulation approved by the board of directors of the respective institution. The members of audit committee must dispose on a corresponding experience, and at least one of the members must have an experience in the field of audit and accounting. The President of the Audit Committee is one of the members of board of directors. There can be reminded among the attributions of the audit Committee: giving notice of the audit plan and the necessary resources due to this activity; the assurance of relation with the financial auditor of the institution, in the manner of receiving the plan of audit and analyzing its findings and recommendations as well as the surveillance bodies and external control; the assurance of respecting the legal and internal statutory framework. The recommendations of the audit Committee towards the board of directors can be similar to those referring to the internal control, internal audit, financial audit and for the appointment of financial auditor of the respective non-banking financial institution.

#### **4. Development of internal control activity**

The internal control activity inside a non-banking financial institution is regarded as an integral part of its daily activity, with a view to attain its targets which were presented previously. It is necessary for the control activities to be defined for each organizing level, implying on one hand the establishment for the control procedures and on the other hand the verification of respecting the established control procedures. The staff who make the control operations must not be implied in operations leading to conflicts of interest between the types of accomplished operations. Thus the staff of control of a non-banking financial institution must not have other responsibilities as the approval of drawing funds and the effective drawing, the evaluation of credit documentations and monitoring the clients following the credits contract.

The information and also communication represent a special attention that has to be granted in the organization and development on internal control inside the non-banking financial institutions, as representing another element of the internal control system. Thus non-banking financial institutions have to dispose on adequate informational systems which to cover all their activities and include modalities of processing the information electronically, as to get audit proofs. The non-banking financial institutions must also assure corresponding waves of information, vertically and horizontally, that allow: informing on the board of directors and manager on the risks due to the developed activity; informing on the staff on the established work procedures; the spreading of information between the compartments and secondary headquarters.

It has to be underlined that one of the major responsibilities of the internal control organized and developed inside the non-banking financial institutions is represented by the identification and evaluation of significant risks, as an element of internal control. For this, the internal control must be organized and developed both at a level of ensemble of an institution and at all the organizing levels and at the same time to cover all the future and present activities of the respective institution. In the operation of identification and evaluation of the significant risks of a non-banking financial institution must be taken into account a complex of factors, which we could group into: *internal factors* (the complexity of organizational structure of the institution; nature of the developed activity; quality of staff and its fluctuation); *external factors* (economical conditions, legislative changes, competency environment, technological progress).

## 5. The implied actors in organizing and development of internal control

In order to achieve its accomplishment, the inner control inside non-banking financial institution must run daily and permanently. There are more factors implied in this action, from the respective institution, namely:

- ***The execution staff of the institution.*** The executive staff make the specific operations for their jobs and represent the first link from the chain of internal system of control, by means that these have the obligation to effectuate a certain type of operation by obeying by some rules, procedures and internal standards. The staff analyze every operation which has been made and realize a firm form of control, namely its own activity self-control. The informatic systems of the non-banking financial institution must be created so as to allow to each employee to accomplish a minimum self-control of their own activities, not to allow the effectuation of some operations without supervision and to be able to supply alert notifications when strange operations occur.
- ***The control staff,*** which has in the responsibility the effectuation of inner control on different organizing steps. The control made by these is in fact a subsequent control effected on certain patterns that have to be representative for the activities subject to control. The control staff activities consisted in verifying and establishing if the operations made were within the framework of legal regulations and the internal norms, if it is assured the efficiency and rentability of activities, in identifying the weak parts of the development of activities, and to evaluate the possible risks whom the activity is subject to, to realize the formalization of the findings and assurance of the information of management structures until the level of board of directors of the respective non-banking institution.
- ***The managers*** of the organizing structures of the institution have the responsibility to assure the conditions to realize an internal efficient control, to perform by these of some operations of supervision and control, to identify the possible risks, to acknowledge the .of the internal control and to adopt some measures to strengthen the control, remedy the deficiencies, administration of minor risks and of those significant and the prevention of producing or development of some activities or operations which are not according to the legal and internal procedures and rules.
- ***The Audit Committee,*** by means of realizing the attributions mentioned above.
- ***The Committee of risks administration,*** to accomplish the responsibilities that are due to them, according to the proper regulations of functioning.
- ***The Board of Directors,*** as a supreme authority of decision and management of the whole activity of a non-banking financial institution, including that referring to the internal control. An efficient internal control is a real support in accomplishment of and efficient administration of a non-banking financial institution.

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