

***Revaluation and the the internal audit limits  
that influence the financial-accounting activity***

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**Abstract:** Regarding the financial-accounting system, the internal audit aims at understanding the accounting and control systems finding and correcting the errors. The auditor must inform the general management about the obvious errors within the entity. The board must know evrything concerning these errors.

**Key words:** audit, control, management, solvency, performance

**JEL classification:** M41

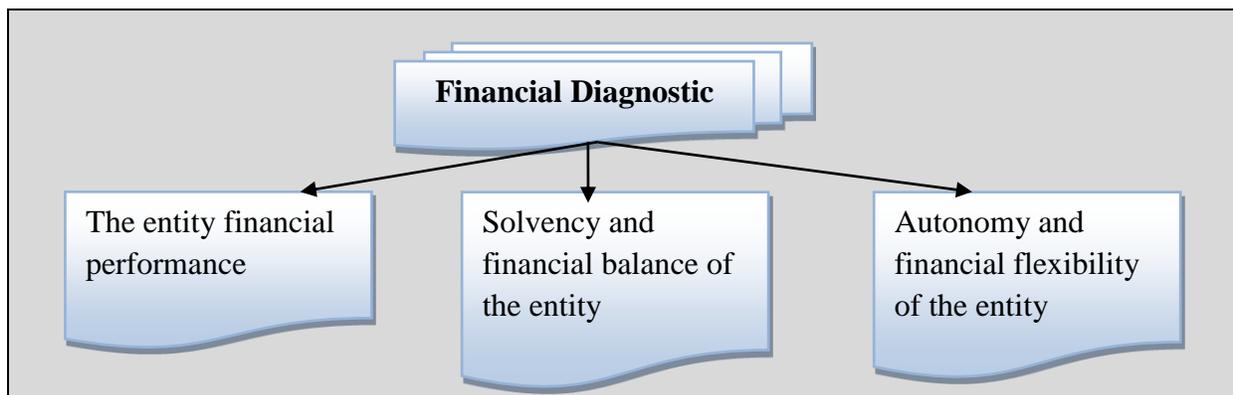
**Introduction**

This work represents my research regarding the evaluation of entity solvency and performance, starting from the analysis of financial economic entity.

**Diagnostic analysis of the economic entity**

I considered that it is imperative to implement a method of performance evaluation in economic entities, through internal audit missions on the economic-financial activity.

**Figure 1. Financial diagnostic of the economic entity**



*Source: Own projection*

Using the financial performance at economic entity, I analyzed the results achieved in the financial year 2013 and I appreciated the effectiveness of the entity available resources based on economic indicators.

$$\text{Liquidity indicator} = \text{Current assets} / \text{Current debts} = 18.661.770 / 17.777.963 = 1,05$$

In terms of solvency and financial stability to the economic entity, I examined the ability of the entity to deal with financial risk analysis in the previous chapter.

$$\text{Global solvency rate} = \text{Total assets} / \text{total debts} = 36.555.935 / 28.430.118 = 1,29$$

In terms of flexibility and financial autonomy of the economic entity, I have found that the entity has an independence of capital and of the passive structure, it has the proper financial flexibility to adapt the entity to market prices due to the analysis of the liquidity indicators, the ability of self-financing, the investment opportunity.

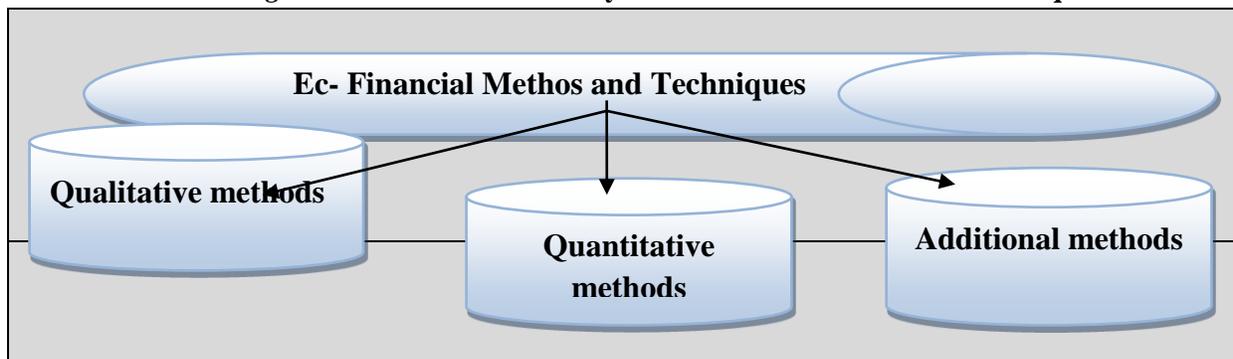
$$\text{Financial stability rate} = \text{Constant capital} / \text{Equity capital} = 17.907.698 / 7.255.543 = 2,46$$

$$\text{Global autonomy rate} = \text{Equity capitals} / \text{Constant capitals} = 7.255.543 / 17.907.698 = 0,41$$

### The internal audit capitalization by applying the scoring method in the audit of the financial-accounting activity

An important role in the performance assessment and the entity potential capitalization is played by the methods of analysis and the economico-financial techniques [1] figure no. 2.

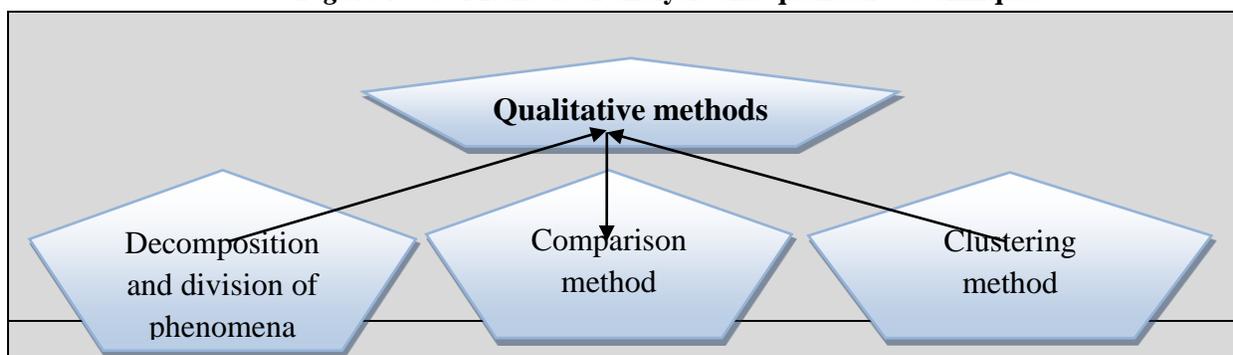
Figure no. 2. Methods of analysis and economico-financial techniques



Source: Own projection

For this example, I used the qualitative method as a pattern, as you can see in Figure no.3.

Figure no. 3. Methods of analysis and qualitative techniques



Source: Own projection

In order to carry out the internal audit for the financial-accounting activity, I chose the „Scoring<sup>1</sup>” method, which is predictive and aims at assessing the risks, being applied when we want to find out whether the economic unit faces certain financial difficulties.

This method relies on the following general calculation formula:

$$Z = aR1 + bR2 + \dots + yRn$$

Where, a.....n, represent the balance values.

R1....Rn, represent the calculation ratios

In order to improve the internal audit system of the private field, I found it necessary to apply at the beginning of internal audit missions, methods and techniques for collecting and gathering information and in this way the risks can be prevented and detected too. The starting point was the choice of Scoring method, taking as an example the Conan and Holder [2], this model was created by French analysts J. Canon and M. Holder and is based on the analysis of liquidity- which is made up of 5 variables, the variable Z calculation is based on the following equation:

$$Z = 16xR1 + 22xR2 - 87xR3 - 10xr4 + 24xR5$$

In order to implement this method to the economic entity, **I selected the following indicators:**

#### The intermediary liquidity rate

$$R1_{2011} = \frac{Creante + Disponibil}{Activ total} = \frac{7.404.558 + 205.165}{11.945.901} = 0,64$$

$$R1_{2012} = \frac{Creante + Disponibil}{Activ total} = \frac{13.416.073 + 506.821}{18.804.884} = 0,74$$

I have calculated this annual rate as a ratio between the current assets reduced by stocks in a two-years period, establishing the annual values. Making a comparison between those 2 years I also set the average value.

$$R1_m = (0,64+0,74)/2 = 0,69$$

#### 2. The financial stability rate are

$$R2_{2011} = \frac{Capital permanent}{Pasiv total} = \frac{11.945.901}{5.598.545} = 2,13$$

$$R2_{2012} = \frac{Capital permanent}{Pasiv total} = \frac{17.907.698}{7.255.543} = 2,46$$

I have made a comparison between the years 2011 and 2012 and I established the average value of the financial stability.

<sup>1</sup> Scoring Method;

$$R_{2_m} = (2,13+2,49)/2 = 2,31$$

### 3. The degree of sales financing from external sources

$$R_{3_{2011}} = \frac{\text{Cheltuieli financiare}}{\text{Cifra afaceri}} = \frac{3.598.341}{33.606.206} = 0,11$$

$$R_{3_{2012}} = \frac{\text{Cheltuieli financiare}}{\text{Cifra afaceri}} = \frac{3.521.610}{41.614.135} = 0,08$$

I aimed to establish the average values comparing two consecutive years of financial expenditure in relation to the turnover.

$$R_{3_m} = (0,11+0,08)/2 = 0,09$$

### 4. The degree of personnel's compensation

$$R_{4_{2011}} = \frac{\text{Cheltuieli de personal}}{VA} = \frac{4.526.100}{34.448.131} = 0,13$$

$$R_{4_{2012}} = \frac{\text{Cheltuieli de personal}}{VA} = \frac{5.783.670}{42.752.961} = 0,13$$

I tried to find the entity staff remuneration compared with the added value, establishing the average value besides the annual one.

$$R_{4_m} = (0,13+0,13)/2 = 0,13$$

### 5. The rate of the added value yield

$$R_{5_{2011}} = \frac{EBE}{\text{Datorii totale}} = \frac{4.870.575}{18.718.964} = 0,26$$

$$R_{5_{2012}} = \frac{EBE}{\text{Datorii totale}} = \frac{3.468.935}{28.430.118} = 0,12$$

This rate represents the degree to which the gross profit of the operation produces added value, comparing the 2 fiscal years in finding out the average values.

$$R_{5_m} = (0,26+0,12)/2 = 0,19$$

Depending on the score of the economic entity, the bankruptcy risk decreases with increasing the score as shown in Table no.1.

Table no. 1. The bankruptcy risk prediction in Conan Holder's model

Score value	Bankruptcy risk probability
$Z < 0$	> 80 %
$0 < Z < 1,5$	75-80 %
$1,5 < Z < 4$	70 -75 %
$4 < Z < 8,5$	50 -70 %
$Z = 9,5$	35 %
$Z = 10$	30 %
$Z = 13$	25 %
$Z = 16$	15 %
$Z > 16$	< 10 %

Sursa: Niculescu, M., op.cit., p. 351

The entity grouping based on the Z-score model Canon-Holder is effected as follows:

If  $z > 9$ , then the company is solvent;

If  $z \in [4,9]$ , then the entity is in an area of uncertainty with possibilities of recovery;

If  $z < 4$ , then the bankruptcy risk of the entity is imminent.

$$Z = 16 \times 0,69 + 22 \times 2,31 - 87 \times 0,09 - 10 \times 0,13 + 24 \times 0,19 = 11,04 + 50,82 - 7,83 - 1,13 + 4,54 = 57,44$$

### Conclusions

Analysing the results obtained by the scoring method of the economic entity, using the model of Conan and Holder we can appreciate that these results are very good with an average of 57,44 that highlights a situation without any risk of bankruptcy in the next period and very low levels of risk.

### References

- [1] Niculescu M., Financial diagnostic, *Economic Publ. House*, Bucharest, 2003, pag. 314
- [2] Niculescu M., Financial diagnostic, *Economic Publ. House*, Bucharest, 2003, pag. 351