

THE PERSPECTIVE OF INTERNAL AUDIT POLICIES

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Abstract

The concept of internal audit has become vital in Romania, with the accession to the European Union and the need to ensure the premises of a central and local public administration centered on the principles of efficiency, effectiveness, economy, legality and compliance with national and European standards of internal managerial control, risk management and governance.

The aim of the paper is to advocate for achieving a balance between audit and governance, on the one hand, and audit and risk management, on the other hand. In this regard, Romania, through the Law on Internal Public Audit, has highlighted the role of the risk identification process for the planning of internal public audit missions.

Keywords: internal public audit, risk management, governance, accountancy, public policy.

JEL Classification: H83, G32, Z18.

Introduction

In Romania, in the field of internal audit, analyses and studies carried out by professional bodies with an internationally recognized activity (PWC, IIA, AICPA, ICAEW, PROTIVI) were taken over. The internal audit structures located at the highest level of an entity, respecting the principle of independence, argue through the recommendations issued that internal audit is more than a simple control, it approaches the perspective of performance, aiming to generate added value.

Internal auditors currently try, through professionalism, attitude, independence and transparency in carrying out internal audit missions, to satisfy the public interest shown regarding the fairness of the affairs subject to its evaluation, while also fulfilling an important social role. The expectations of the business environment and in general, of the beneficiaries of the internal audit reports, towards the auditors, are mainly related to the performance of quality internal audit missions, in order to provide pertinent assurances regarding the reality and correctness of the information contained in the financial-accounting reports.

Thus, through the activity carried out by the internal audit structures, a very important message can be given regarding the state of health of the audited entities. In this way, it militates for the increase in the number of system audit missions, to the detriment of regularity audit missions, precisely in order to make the transition to the analysis of the performance of the public entity in terms of quantitative and qualitative indicators. The complex process that performance auditing requires is precisely the identification of the criteria that determine the system of indicators to be analyzed from the perspective of their achievement and relevance. In this regard, indicators of the plan task, of the fulfillment of the plan and indicators for measuring the efficiency and effectiveness of the management of the public entity will be established. The identification of indicators thus easily serves to assess the level of performance of a public entity, in relation to the internal managerial control standards, the principles of risk management and the governance system at the level of Romania, in relation to the mentioned systems at the level of the European Union.

Literature review

As far as internal audit in Romania is concerned, it was initially regulated, through the elaboration of Government Ordinance no. 119/1999 on internal audit and preventive financial control, in an attempt to align with the European requirements regarding the concept of internal audit, laying the foundations of this activity in our country. In the private sector, internal audit is regulated by GEO no. 75/1999, being monitored by the Chamber of Financial Auditors of Romania, a professional regulatory body in the field.

Law no. 672/19.12.2002 on internal public audit, laid the foundations for a methodology for implementing internal audit in the central and local public administration. In parallel with the legislative framework, the General Rules on the exercise of the internal public audit activity were developed, approved by OMFP no. 38/2003 (later replaced by H.G 1086/2013), emphasizing risk management and the functionality of internal control.

It is obvious that, at least at the level of internal public audit, we are witnessing a continuous and dynamic process of modernization and adaptation to the new requirements of the national economy, in the European context.

Research methodology

In the research approach, the starting point in achieving the proposed goal was outlined by starting three types of approaches: an epistemological approach, a theoretical approach and a technical approach.

Through the epistemological approach, both the risks to which an entity is exposed and the recommendations formulated in the internal audit report elaborated at the end of the mission (Niculescu, Vasile, 2011) are analyzed, aiming to generate added value by the internal audit. According to Jean Piaget, epistemology represents "the study of the formation of valid knowledge" (Piaget, 1970). Epistemology is the philosophy of knowledge, it is a branch of it that addresses the assumptions and the theoretical basis, their scope and validity (Pisoschi, Ardelean, 2007).

The theoretical approach aims to achieve the major objective of the research, based on the literature and studies developed in this field, in order to be able to analyze the debated problems. Based on these studies, the evolution of internal audit is highlighted, by studying the works in the economic field and publications in the

specialized literature, the national and international regulations in the field of accounting and internal audit.

Content

The paper aims to identify the problems generated by the management of economic entities in terms of efficiency and effectiveness in the functioning and achievement of objectives, on the one hand, and on the other hand, in risk management, in order to identify and avoid committing errors and financial-accounting frauds.

Based on our own, practical experience in internal audit, we can say that this activity is relatively small, not being sufficiently known or appreciated by the general management. The uncertainty in the current business environment results largely from the challenges arising from several technological sources of transformation, which are also generated by the bodies that develop internal regulatory norms.

The variety and rapid adaptations of activities within the economic entity represent new challenges for the internal audit function. Not only do we need to keep pace with the need for the continuous expansion of internal audit structures, but we also need to apply rigorous and systematic control of moving targets, such as emerging risks, as well as new business processes that form a complete result of external changes. In addition, a growing set of internal regulatory and harmonisation requirements for internal audit are expanding its scope and assurance responsibilities.

In an attempt to identify the possibilities of capitalizing on the financial-accounting activity in public entities, as a form of comprehensive approach to the auditable field, we started from the premise of the definition of the regularity audit, as a form of examination of actions on the financial effects on account of public funds and public assets. In this way, in order to determine the existing problems and establish the optimal solutions for improving the organization of the accounting system, on the one hand, as well as offering alternatives in the counseling activities, on the other hand, it was considered appropriate to incorporate the information transmitted through the financial-accounting reports and taken into account when carrying out the Quality Assurance and Improvement Program to increase the effectiveness of the audit activity on the management of the public entity.

In order to establish the results of the scientific research, we aimed to achieve the purpose of the research, using in the practice of the economic entities the accounting structures and departments. This study shows that the cost-effect analysis in the internal audit of the financial-accounting activity in economic entities is deficient.

Internal audit professionals must understand the key objectives and challenges to which the public entity is subjected. Also, the internal auditor must ensure, through the missions established by the Annual and Multiannual Plan, the organizational changes that occur frequently, adequately addressing the new risks and changes that arise and operate at the level of the organization. Internal audit plays an important role in risk management, helping entities to identify, monitor and manage them effectively, continuously seeking to protect the management of the public entity.

In the process of identifying risks, it is necessary to work together with the structures of the public entity in order to increase the level of relevance of the processes, activities and actions carried out to achieve the objectives of the public entity and to correlate with the country objectives, established through the government program and assumed in relation to the European Union institutions. Thus, through a systematic and methodical approach, the audit contributes to increasing the level of effectiveness of the use of public funds, in consensus with the national objective, increasing the well-being of the population by reducing dysfunctions, deficits and

deficiencies in the use of public funds.

Internal auditors play a critical role, essentially helping general management to understand, assess, mitigate and manage the risk to which the public entity is subjected, through the missions proposed in the internal audit plan. The internal audit, in partnership with the board of directors and the general management, ensures the realization of the internal audit plan, being built flexible enough to adapt or change whenever necessary.

Internal auditors, through their work, continuously improve their own skills and learn about new technologies and skills that are needed in the future. The success of any internal auditor is maintained through continuous professional training, aiming to improve the capacity of the economic entity, by satisfying and deepening the study of needs. As a result, internal audit needs to think integrative when looking for ways to add value to the organization.

The internal audit, by reference to the definition and based on the analyses, is located as a lever between the internal auditors and the management of the entity. Internal audit, over time, has been considered a function that has aimed to respond to managers regarding the needs of constantly changing entities, and nowadays it is responsible for providing advice and recommendations to general management.

As a result of the research, it was found that the internal audit started its activity on accounting issues, and along the way it became a powerful tool for detecting the main risks hovering over public entities. The systematic approach of the internal audit aims to delimit and define in a historical context the evolution of the economic, social, political and cultural environment, aiming at its development in the economic entity.

The demand for both types of audits, external and internal, stems from the need to have independent means of verification, in order to reduce the number of actual errors, embezzled assets in general and fraud in economic entities, in particular.

Following the experience gained over time in the field of internal audit, we aimed to highlight the importance of this function in enhancing the management of the financial-accounting activity in economic entities.

Through this scientific approach, we try to find out if we are moving in the right direction in terms of the potential of internal auditing of financial and accounting activities in economic entities.

Another aspect to be verified is to assess the contribution of internal audit to the improvement of risk management processes in the financial-accounting activity, to the elimination of deficiencies in the implementation of good practices in the governance of the economic entity.

From the analysis of the above, it follows that we are in a process of continuous change of the national accounting regulations, as well as changes regarding internal audit and risk management, the advisory activity gaining more and more ground.

The internal audit function began to be appreciated due to the experience of specialists, increasing the degree of confidence in internal audit reports. Internal audit has taken shape over time, being considered a necessity for public entities, adapting to changes that bring adjustments to the performance of the economic entity and the interests of stakeholders. The high interest of the internal audit in the risk identification process makes the forecasting and control function, corroborated with the organization and control functions, create the premises for a successful partnership between the audit team and the management team of the economic entity. The risk assessment aims to examine global problems in order to identify the main measures to mitigate their effects on the performance of the economic entity, to communicate information with clarity and precision for a broad

perspective on the organization of the activity.

From the documentation carried out, corroborated with professional experience, we found that there is no perfect control system in the audit missions of the financial-accounting activities. The size of the staff in an economic entity is limited, which can hinder efforts in the separation of duties, necessary implementation of controls in order to achieve objectives. An inherent limit in any system can be the element of human error, misunderstandings, fatigue and stress to which employees are subjected. The cost of implementing a specific control must not exceed the expected benefits of internal audit.

At the same time, the accounting system and the factors that influence it and leave their mark on the way of communicating accounting information and its dissemination. Accounting systems impose a certain way of presenting accounting information and a certain way of organizing accounting. Consequently, all these have an influence on the financial and accounting reports.

Accounting systems are influenced not only by tax regulations, by the way a public entity is financed, by economic problems, but also by the culture of a state.

Ample space is allocated to analyzing the causes and effects of fraud risk. The management of the public entity is responsible for preventing and detecting frauds and errors, by monitoring the level of accuracy of the accounting system using information technology elements, in the form of specific platforms, but also specific control tools and techniques.

At the same time, by implementing internal managerial control standards, public institutions have more internal managerial control tools to detect signs of fraud and corruption. Internal audit reduces the risk of fraud and error, but it cannot eliminate it entirely.

The auditor's assessment of the control risk influences the ways in which the reduction of the risk of non-detection is achieved. Risks of non-detection can exist even if the categories of transactions (e.g. most audit evidence) are persuasive rather than conclusive.

Conclusions

The present paper creates a holistic image of the functions and principles of internal audit, creating the premises for an adequate understanding of the concept of audit in relation to a series of applied economic disciplines: accounting, internal control, economic and financial analysis, accounting law. Through the internal audit mission, the internal auditors produce benefits for the entity through a systematic evaluation, based on audit standards, good practices in the field, policies, procedures and operations carried out by the economic entity in order to increase the economic, financial and social performance of the economic entity.

The implementation of the internal audit function at the entity level in order to properly manage the economic and financial resources, to increase the entity's capacity to face current and future economic challenges, also achieves an epistemological approximation between the audit principles and practices or the principles and functions of risk management.

In this regard, an important role is played by the concept of governance and the indissoluble link between governance and internal audit, both through the evaluation and control reports, and through the contribution of the audit committee to increasing the entity's performance and meeting the economic quality standards. The audit based on a risk assessment of the organization, the economic and financial reports made by the

management team, determines a trajectory that the public entity is able to follow in the form of a Manual of Internal Audit Procedures and Norms, having as its main purpose the assurance and advice of the management for the good administration of revenues and expenses, meant to add added value to the economic entity.

By carrying out the work, the author intends to correlate complex information about the internal audit mission at the level of an economic entity, without claiming complete information, with the role of creating an economic corollary specific to the audit function: no economic entity can be absolved of risks, the audit being meant to reduce the negative consequences and to identify measures to optimize the report corporate governance – audit – economic performance.

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