

# The values of the internal audit in the framework corporate governance

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## Abstract

The paper is intended to be a research effort in the process of public administration reform in Romania, as general efforts are directed at improving the way in which the entire public sector is organized and operated, both in terms of public management, and in terms of the administrative capacity of public institutions. Against this background, with a view to strengthening institutional capacity, a number of measures have been taken to improve the quality of public internal audit work so as to meet the requirements at European level.

**Keywords:** internal audit, public institutions, governance

## 1. Introduction

The introduction of the audit also marks the change in the way the public organization evaluates from a performance perspective. Initially, the criterion for the appreciation of public organizations was the extent to which they serve the "public," while private organizations are pursuing profit. Of course, the cause of serving the public, beyond the ambiguities in identifying the beneficiary and the quality of the benefit, was in itself too high to justify in principle any expenses and leave no room for real and objective analyzes of efficiency. The 1980s were to bring about a significant change in the performance management of the organization, notably by promoting the concept of quality assurance that would genuinely bring to the forefront the citizen as a beneficiary of the services offered by public institutions, the resources entrusted to them and their use.

## 2. Theoretical Background

Our study aims to present both theoretically - the main legal regulations, studies and methodologies, procedures and techniques - and from a practical point of view - by analyzing the way of applying the internal audit work in the risk assessment an audit mission on financial-accounting activity within a mayoralty, in accordance with the regulations in force.

With reference to constructive empirical research, we have resort to the following methods:

- tabular and graphic representation to highlight both the theoretical notions and applied research as accurately as possible;
- we applied the inductive method of analyzing the information gathered in the audit regarding the use of the results from the questionnaires addressed by the internal auditors to the management within a entity subject to the financial audit.

## 3. Argument of the paper

In an innovative approach, the present work aims at developing the idea that an internal audit quality assessment provides the possibility to set standards and provide recommendations on the specific responsibilities of the internal auditor integrated into the organizational chart of a public entity, respecting the principle of independence, but also to analyze the internal audit from the point of view of providing reliable, credible and pertinent study elements for both the entity's management and the external audit activity (including the degree of communication of the internal audit).

However, the use of internal audit results in external audit work involves the inclusion of the internal audit assessment in the objectives of the external audit mission, ie the application of specific evaluation procedures that provide sufficient assurance that the internal audit activity complies with the quality standards professional and regulatory and legal requirements, as well as relevance to the objectives of the audited entity. In specific external audit activities, communication is required from the stage of the establishment of the annual audit plan to identify those areas or systems that require the launch of internal audit evaluation missions. Also, the planning of the audit mission should ensure effective communication of the scope and scope of the audit, to the management of the unit. In fact, an ineffective control environment can create the opportunity to commit fraud, and from this perspective it can be said that the nature, scope and frequency of the internal audit assessment are relevant to understanding the control environment by an external auditor.

#### **4. Arguments to support the thesis**

It is important that an external auditor with an evaluation function obtains an understanding of the controls designed and implemented by the management due to the fact that, in designing and implementing such controls, management can make informed judgments about the nature and area to embrace the risks they choose to assume. The external auditor may find out that, for example, management has consciously chosen to accept the risks associated with a gap in the separation of tasks. However, the internal auditor should have responsibilities not only for the entity for which he works but also for society in general to assure that the entity is governed by the legal standards specific to its field of activity.

Internal auditor performance evaluation may indicate to the external auditor the aspects of the entity's activity that management considers significant. Performance indicators, whether external or internal, may, however, create pressure on the entity, which in turn may motivate the management to take action to improve the performance of the business or distort the existing situations. Understanding such performance indicators can help the external auditor to see if such pressures can give rise to management measures that have increased the level of significant distortion.

#### **5. Arguments to argue the thesis**

It can be said that, internally, it is very important for top management, to be well informed and to regularly monitor the management and control, ensuring the implementation of appropriate procedures and their efficiency, as well as the resolution of the dysfunctions. In this context, the assessment of the quality of internal audit confers its quality as a credible source both for the user who has set its objectives and for external users to provide a reasonable assurance of the entity's.

The internal audit function should contribute to improved internal control, and an internal audit quality assessment would contribute to an improved internal audit. Internal audit quality assessment thus becomes a complex management performance objective. Domestically generated information used for evaluation purposes may include key performance indicators (financial and other), budgets, variance analysis, segment or divisional information, divisional performance reports, or performance comparisons across entity divisions.

At present, as a result of the evolution of the internal audit function, it can be appreciated that its involvement in the life of a public entity influences a number of users, such as management, through counseling to the manager, the employees, with the help, without judging, the auditor, by monitoring the overall independence and objectivity of auditors and other external users through the credibility of the information transmitted.

Professionalism internal auditor is art and fashion to deliver a value judgment on the tools and techniques used (eg rules, procedures, instructions, computer systems, types of organization,

etc.), which represents all control activities used the manager of the institution or the manager of a job, recognized by the specialists as internal control.

As a function of assistance manager, internal audit allows it to succeed administration more efficient and safe activities, this component support, counseling, detached, distinguishing internal audit control of any action or review. The manager is advised by the internal auditor to identify the most effective solutions to the issues arising in the entity's business in order to ensure the best and most effective control of its activities, projects or resources. The role of the internal auditor is to advise the manager on the successive practical approaches already developed through analyzes and evaluations, to assure the functionality of the internal control system.

It is therefore obvious statement that the internal auditor decides he only assists and advises obligation being to be a means to contribute to improved controls that each manager has on its activities and those in the coordination of objectives of internal control.

In order to carry out the assistive and advisory duties, the internal auditor has a number of distinct instruments to management, such as:

- international professional standards;
- good practice recognized in the field, which gives it authority;
- techniques and tools that guarantee its effectiveness;
- independence from the spirit, which ensures autonomy in the conception of hypotheses and the formulation of recommendations;
- thinking detached from the constraints and obligations of a permanent daily management activity of a service.

## **6. Dismantling the arguments against**

In a standard case, the internal audit engagement may reveal inefficiency, redundancy in the system, or opportunities for improving activities or actions. The question arises whether there are, however, several reasons why the manager is not made directly in question, namely: internal audit objectives are considering control over activities leading to improve existing performance and not the trial manager. As the tax expert helps to better implement the tax regime, the specialist in internal audit should also contribute to a responsible implementation of the managerial strategy.

Even if the manager or manager is judged by the audit reports, it should be noted that this is not an internal audit objective. The achievements of the internal audit should not be questioned by the auditee, and if that is done, it should be done in a positive manner. As an example, in the case of a failure, an important irregularity discovered by the internal auditor, which is immediately brought to the attention of the manager, the latter should resolve it without delay. In this case, the malfunction reported in the internal audit report led to a corrective action that also resulted in the auditor's assessment.

The responsibilities of the internal auditor should take into account the fact that often the analysis of the causes of an irregularity reveals the existence of weaknesses that originate in shortcomings over which the manager has no good control. Thus, it is noted that the solutions must come in a hierarchical way or even at the level of the organization, if they are problems of cultural dimension, professional training, budget, organizational, informational nature, etc. This often encountered situation stimulates the staff of the audited entity by the fact that the internal auditor confirms the shortcomings signaled or known to him.

The internal audit function shall not be subject to pressure that may be contrary to the objectives set for auditing. Professional standards of internal audit define the principle of independence in two respects:

- the independence of the compartment within the organization, in the sense that it must operate subordinated to the highest hierarchical level;
- Independence of internal auditors in order to ensure objectivity in the work they will carry out.

Independence of internal auditors must have compliance with the independence standard requires rules such as:

- internal audit must not be subject to any operational service;
- the internal auditor, for the proper conduct of the audit engagement, must be able to access at any time the persons at all levels
- hierarchical, goods, information, information systems, etc. ;
- the recommendations they make must in no case constitute mandatory management measures.

The organization of the internal audit function under the hierarchical level of the highest is not sufficient, but it is necessary for each auditor, as part of his / her work, as well as the manager, to show objectivity. In the case of the auditor, this is one of the fundamental principles of the code of ethics. Objectivity implies achieving an appreciation in total neutrality, not having preconceived ideas but an impartial attitude. Professional standards believe that objectivity is also affected when the auditor carries out an audit engagement in an entity or an activity, or a program, whose responsibility has taken over time. Referring to the auditor's independence, says that in reality it is subject to a double limitation:

- The internal auditor, as any person in charge of the organization, must comply with the strategy and policy of the Directorate-General;
- The internal auditor must be independent in the performance of his/her duties, while respecting internal audit standards.
- In terms of external perception, knowledge and understanding of the entity and its environment, including internal audit, through an algorithm of procedures for assessing the risk of material misstatement, is absolutely necessary for the external auditor.

It pursues a credible source for detecting and quantifying, where appropriate, system irregularities and, in particular, frauds. The external auditor is accountable to the users of the financial statements, which is based on the fact that the auditor brings credibility to these situations and the internal auditor is accountable to the management. Regarding the positioning of internal audit vis-à-vis external audit, the main difference is the part to which each of them responds. For both types of audit missions, for example, a similar methodology is applied, including planning and conducting testing of control mechanisms and substantial tests.

External auditors rely on the work of internal auditors using the audit risk model. In fact, internal audit and external audit are two non-competing, but complementary functions.

## 6. Conclusions

We consider that the assessment of the public internal audit implies more than the analysis of the legality and accuracy of the activity programs, because it follows both why and how well both the activities of a program and the program as a whole are being carried out, determines on the basis of maintaining a steady quality, an increase in the responsibility of the decision-makers.

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