

## ORGANIZATION AND EXERCISE OF INTERNAL AUDIT ACTIVITY PRIVATE ENTITIES

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***Abstract:** The internal audit, through the activities carried out, monitors the implementation of the internal control procedures, of those for risk management and, last but not least, of the governance processes.*

*Unless the regulatory framework requires a certain form of organization of the internal audit activity, senior management may decide on the organization of the internal audit activity either as an internal structure within the organization (respectively internal audit department) or outsourcing the internal audit through contracting an external provider specialized in such services.*

***Keywords:** internal audit, internal auditor, recommendations and opinions, internal audit report, internal audit procedures.*

### 1. LEGAL ASPECTS REGARDING THE ORGANIZATION OF THE INTERNAL AUDIT ACTIVITY

The obligation to organize the internal audit activity belongs both to the organizations that fall under the obligation to audit the annual financial statements, and to those that opt for the audit of the annual financial statements.

Internal audit is an attribute of management, the auditor having the role of assisting the manager in making decisions, regarding the best possible control over the activity.

The internal audit makes recommendations, but does not require mandatory measures. Through this information and recommendations (reports), the internal audit provides "managerial assistance" to managers at different levels.

The internal audit ensures the monitoring of the activities carried out in the company, including the internal control activity.

The internal audit, through the activities carried out, monitors the implementation of the internal control procedures, of those for risk management and, last but not least, of the governance processes.

Based on a pre-established methodology and an activity plan approved by the head of the entity (based on a mandate), the internal audit performs a general diagnosis of the internal control system, which includes managerial, technical, economic, financial, accounting and other aspects. the nature.

Unless the regulatory framework requires a certain form of organization of the internal audit activity, senior management may decide on the organization of the internal audit activity either as an internal structure within the organization (respectively internal audit department) or outsourcing the internal audit through contracting an external provider specialized in such services.

The internal audit activity is exercised within the economic entity by persons inside or outside it, in compliance with the legal provisions.

The internal audit activity (whether internalized or outsourced) can function optimally only if it receives support from the top management of the organization, in terms of recognizing the purpose, authority and responsibilities of the internal audit activity, according to the Internal Audit Charter.

According to the Qualification Standard 1000, the legal framework for organizing and carrying out the internal audit activity must be specified in a written document, prepared / proposed by the coordinator of the internal audit activity and approved by the organization's senior management, in the form of the Internal Audit Charter.

In support of the internal audit activity, the management of the organization: ensures optimal working conditions for internal auditors; provide internal auditors with full access to all records, documents, assets and employees of the organization so that they can carry out their responsibilities; inform in due time the internal auditor about the identification of certain risk areas that may determine special internal audit missions, communicate effectively with the internal audit team in carrying out the mission.

Internal audit practices differ depending on the purpose, size, structure and field of activity of the economic entity.

Those responsible for organizing the internal audit activity, coordinating the works / commitments and signing the internal audit reports must have the quality of financial auditor.

Economic entities whose annual financial statements are subject to financial audit (statutory), according to the law or the option of shareholders

/ associates, organize the internal audit activity according to the internal audit norms developed and approved by the Chamber in accordance with international internal audit standards (fine from 50,000 to 100,000 lei, for not organizing the internal audit department). The ascertainment of the contraventions and the application of the sanctions are made by the persons established by order of the president of ASPAAS.

At the autonomous utilities, the national companies / societies, as well as at the other economic entities with majority state capital, the internal audit activity is organized and functions according to the legal framework regarding the internal audit of the public entities.

## **2. OBJECTIVES OF INTERNAL AUDIT IN PRIVATE ENTITIES**

The scope, objectives and manner of conducting internal audit missions depend on the field of activity, the complexity of the organization, directly correlated with the professional experience of the internal auditor and his ability to reason professionally for the most appropriate, objective, efficient and effective decisions. in his activity.

The CAFR decision adopted the Guide on the implementation of International Standards on Internal Audit, 2nd edition, 2019, approved the internal audit rules, applicable to entities, which are subject to financial audit, in accordance with applicable law, rules that consist of: the code of ethics that presents relevant principles and rules of conduct for internal audit practice; international standards for the professional practice of internal audit; the specific methodology for carrying out internal audit missions.

Thus, according to art. 65 para. (7) of Law no. 162/2017, the entities whose annual financial statements are subject, according to the law, to the statutory audit (respectively the public interest entities defined according to art. 2 point 12 of Law no. 162/2017 and the entities that meet the size criteria for auditing) are obliged to organize and ensure the exercise of the internal audit activity. At the same time, for the entities of public interest, the obligation to organize an audit committee is provided, according to the law.

We emphasize the fact that, according to art. 44 of Law no. 162/2017, constitutes a contravention of non-compliance with the requirements regarding the organization of the internal audit activity and of the audit committee, and is sanctioned with a fine from 50,000 lei to 100,000 lei. Also, according to GEO 75/1999, republished, regarding the financial audit activity, those responsible for organizing the internal audit activity,

coordinating the works / commitments and signing the internal audit reports must have the quality of active financial auditor.

The performance of the internal audit activity is performed in accordance with the international internal audit standards issued by the Institute of Internal Auditors of the United States of America and adopted by the Chamber and in compliance with all regulations issued by CAFR on financial audit activity, for which the Chamber is competent. laws.

At the autonomous utilities, the national companies / societies, as well as at the other economic entities with majority state capital, the internal audit activity is organized and functions according to the legal framework regarding the internal public audit of the public entities.

In this regard, we recommend that the financial auditors communicate to the persons responsible for governance within the audited entity the new requirements regarding the organization of the internal audit activity and the audit committee and the sanctions that may be applied, by including a warning paragraph in the management letter. (letter of recommendation), the audited entity

The internal audit is exercised over all the activities carried out by the entity.

According to the regulations in force, the objectives of the internal audit are:

a) verifying the conformity of the activities of the audited economic entity with its policies, programs and management, as well as in accordance with the legal provisions (observance of normative acts and management decisions);

b) the evaluation of the degree of adequacy and application of the financial and non-financial controls ordered and performed by the management of the unit in order to increase the efficiency of the activity of the economic entity (organization and efficient functioning of the internal control system);

c) assessing the adequacy of financial and non-financial data or information intended for management, in order to know the reality of the economic entity (reviewing the reliability and integrity of financial information);

d) protection of balance sheet and off-balance sheet assets and identification of methods to prevent fraud and loss of any kind (economical, effective and efficient use, as well as protection of financial, material and human resources).

### 3. CARRYING OUT THE INTERNAL AUDIT MISSION IN PRIVATE ENTITIES

Carrying out the internal audit mission in private entities involves performing the following internal audit procedures:

- ***the procedure of the internal audit plan***, which represents the framework of action for the Internal Audit Department and is drawn up by the head of this department. The internal audit plan is drawn up either following the risk assessment or includes the activities to be audited, even if they do not present a high risk, they can be included in the annual plan at the request of the company's management or the Board of Directors;

- ***the procedure of the mission order***, according to which the mission order represents the mandate given by the Audit Committee, to the Internal Audit Department for starting the internal audit missions in accordance with the approved internal audit plan. The role of the mission order is to clearly specify the objectives of the internal audit mission;

- ***preparation, updating and validation of declarations of independence***, according to which the auditor verifies any personal incompatibilities. The independence of the internal auditor appointed to carry out an internal audit engagement must be demonstrated by completing the declaration of independence document. If a real or possible incompatibility occurs during the internal audit engagement, the auditor is obliged to inform the management of the audited entity as a matter of urgency;

- ***the notification procedure regarding the initiation of the internal audit mission***, which aims to ensure the proper conduct of the audit mission, without affecting the normal conduct of the audited activity. The notification of the initiation of the internal audit engagement shall contain information on the purpose, general objectives, duration of the engagement, documents to be made available by the audited structure, and information on the date of the closing meeting. The internal audit department shall notify the audited structure 7 calendar days before the start of the internal audit engagement;

- ***the purpose of the opening meeting procedure*** is to allow discussions on the role of the internal audit mission, the general objectives and working arrangements for the conduct of the internal audit mission, as well as to establish contacts during the audit mission. Internal Audit;

- ***the procedure for collecting and processing at least the information***, which will later allow the division of the audited processes or activities into elementary tasks, the identification of the risks specific to each task and their evaluation. Within the information collection process, the information questionnaire form is elaborated, which contains questions through the answer

of which, the internal auditors can know the socio-economic context of the organization and functioning of the audited structure ;

- ***the procedure for identifying and analyzing the objectives, activities and risks***, aims at identifying the risks specific to the audited structure / activity. In the risk assessment process, auditors apply professional judgment, using the knowledge, experience and information related to those activities, accumulated in previous audit missions or provided by the structure responsible for risk management, if it exists within the organization;

- ***the initial internal control evaluation procedure***, is performed on the basis of the internal control questionnaire, as well as the existing documents in the permanent file and has the role of identifying the existence of internal controls for each auditable activity;

- ***the procedure of elaboration and finalization of the audit mission program***, aims at the development in good conditions of the internal audit mission, with the observance of all stages and procedures in order to cover all the auditable objectives and the risks associated with them. The program of the audit engagement is structured on the stages of the internal audit engagement and activities, and for each audit objective the activities selected in the audit and the concrete tests to be performed are include;

- ***the procedure for collecting audit, evidence, aims to ensure a relevant and reasonable documentary basis for formulating the findings and conclusions of auditors.*** Collection of audit information and evidence in accordance with the objectives set. Thus, the audit evidence is produced, based on which the auditors will formulate findings, conclusions and proposals to eliminate the identified deficiencies. Internal auditors formulate audit findings and conclusions in worksheets, depending on the processing of information obtained from the application of internal audit techniques and tools (checklist questionnaires, tests, interviews, checklists, etc.);

-***the procedure for reviewing the execution of the internal audit mission and completing the audit files***, aims at preparing and organizing the documents so that they represent a relevant, rigorous and solid documentary basis for forming an opinion on the audited objectives. Prior to the completion of the internal audit engagement, the Head of Mission shall verify and review the execution of the audit program, determining whether the audit procedures initially established by the audit program have been fully performed, and the adequacy, usefulness, relevance and credibility of the results of these procedures. achieving the general objective of the mission, respectively, ensuring the appropriate quality of the audit evidence obtained. The auditors review the working documents in terms of content and form, ensuring that the audit evidence contained in the internal audit engagement file ensures the formation

of the opinion. The review of documents shall be performed by the internal auditors to ensure that the documents prepared during the internal audit engagement are prepared in a proper and regular manner. Internal auditors, by reviewing the documents, ensure that the evidence gathered to support the findings is sufficient, conclusive and relevant;

***-the procedure for the closing meeting of the mission***, which aims to present the findings, conclusions, and preliminary recommendations of the internal auditors resulting from the audit evidence. During the meeting, the internal audit presents the findings, recommendations and conclusions to the audited entity, and the results of the meeting will be recorded in one minute of the closing meeting;

***-the procedure for elaborating the draft internal audit report***, aims at presenting the general framework, objectives, findings, conclusions and recommendations made by the internal auditors. In preparing the draft internal audit report, the auditors use the audit evidence recorded in the worksheets and in the Form for finding and reporting irregularities. The internal auditor sends to the head of the Internal Audit Department the draft audit report together with the specific documentation and performs the modifications proposed by the Head of the Internal Audit Department;

***-the procedure for submitting the draft internal audit report***, aims at the audited structure to have the possibility to analyze the draft audit report and to formulate its point of view to the findings and recommendations of the audit team. The audited entity analyzes the draft audit report and transmits the point of view within a maximum of 10 calendar days from its receipt. By not transmitting the points of view within the legal terms, the tacit acceptance of the draft internal audit report is considered. The draft internal audit report is revised according to the accepted views;

***-the conciliation meeting procedure***, aims to discuss the appeal filed by the head of the audited structure / activity and the findings and proposals made in the draft audit report, establishing the timetable for implementing the recommendations and the persons responsible for implementing the recommendations. The conciliation meeting is prepared by the auditors, who formulate their views on the appeal filed by the audited entity. The internal auditors prepare, within 10 days from the receipt of the appeal submitted by the audited structure / activity, the conciliation meeting;

***-the procedure for drawing up the final audit report***, in which the internal audit report is finalized by including the changes discussed and agreed at the conciliation meeting. If the audited entity does not request conciliation and does not formulate the point of view on the audit project, the project becomes the final internal audit report. The internal audit report shall contain the auditor's

opinion and shall be accompanied by a summary of the main findings and recommendations. The internal auditors express their opinion on the audited activity depending on the levels of appreciation granted and the results of the findings made or the degree of accomplishment of the audited activities;

**-the procedure for disseminating the internal audit report**, which aims to send the internal audit report to the persons included in the dissemination list of the report. The internal audit report is sent to the management of the audited structure / activity, to the management of the company and to those in charge of the Governance;

**-the procedure of the final revision, of archiving the report and of the file of the internal audit mission**, aims at ensuring the fact that in the internal audit mission all the established objectives were achieved, in quality conditions. Preparation of audit files and establishment of rules on custody and safeguarding of mission files in accordance with international internal audit standards. The Head of the Internal Audit Department is responsible for overseeing the internal audit mission. The internal audit files, through the information contained, ensure the link between internal audit planning, on-site intervention and the internal audit report;

**- the progress monitoring procedure** aims to verify the extent to which the auditors' recommendations have been implemented exactly on time and in an effective manner, as well as to assess the consequences of non-implementation. The follow-up of the implementation of the recommendations by the internal auditors is a process through which the adequacy, effectiveness and timeliness of the actions taken by the management of the audited structure / activity based on the recommendations contained in the Internal Audit Report are ascertained. The audited structure must inform the internal audit department on how to implement the recommendations within the deadlines set out in the action plan for implementing the recommendations. The process of following up the recommendations consists in assessing the adequacy, effectiveness and timeliness of the actions taken by the management of the audited entity to implement the recommendations in the internal audit report..

**-reporting procedure and periodic syntheses**. The internal audit department provides the following reports:

a)the internal audit report carried out following an audit engagement, together with the results of the conciliation, shall be submitted by the auditors appointed to carry out the audit engagement to the Head of the Internal Audit Service for analysis and supervision.

The head of the internal audit service submits the internal audit report to the general manager of the company, for analysis and approval;

b) periodic reporting on the findings, conclusions and recommendations resulting from its audit activities, to the general manager of the company, at his request. This report shall be prepared and submitted by the Head of the Internal Audit Service whenever necessary;

c) elaboration of the annual report of the internal audit activity;

At the beginning of each year, the head of the internal audit service prepares and submits an annual activity report to the general manager of the company.

d) the head of the internal audit service shall ensure that the reporting of various information regarding the internal audit activity within the company, requested by the competent bodies is based on authorized information and is approved by the general manager, before being transmitted.

#### 4. CONCLUSIONS

The following conclusions can be drawn regarding the organization and exercise of internal audit in private entities:

- the obligation to organize the internal audit activity belongs both to the organizations that fall under the obligation of auditing the annual financial statements, and to those that opt for the audit of the annual financial statements-auditul intern face recomandări, dar nu dispune măsuri obligatorii. Through these information and recommendations (reports), the internal audit provides "managerial assistance" to managers at different levels;

- the internal audit, through the activities carried out, monitors the implementation of the internal control procedures, of those for risk management and, last but not least, of the governance processes;

- based on a pre-established methodology and an activity plan approved by the head of the entity, the internal audit makes a general diagnosis of the internal control system, a system that includes managerial, technical, economic, financial, accounting and other aspects;

except in situations where the regulatory framework requires a certain form of organization of the internal audit activity, the senior management may decide on the organization of the internal audit activity either as an internal structure within the organization (respectively internal audit department) or outsourcing of internal audit by contracting an external provider specialized in such services;

- the internal audit activity is exercised within the economic entity by persons inside or outside it, in compliance with the legal provisions;

-internal audit activity (whether internalized or outsourced) can function optimally only if it receives support from the top management of the organization, in terms of recognizing the purpose, authority and responsibilities of the internal audit activity, according to the Internal Audit Charter;

-in support of the internal audit activity, the management of the organization: ensures optimal working conditions for internal auditors; provide internal auditors with full access to all records, documents, assets and employees of the organization so that they can carry out their responsibilities; informs in due time the internal auditor about the identification of certain risk areas that may determine special internal audit missions, communicates effectively with the internal audit team in carrying out the mission;

-internal audit practices are differentiated depending on the purpose, size, structure and field of activity of the economic entity;

- those responsible for organizing the internal audit activity, coordinating the works / commitments and signing the internal audit reports must have the quality of financial auditor;

-economic entities whose annual financial statements are subject to financial audit (statutory), according to the law or shareholders' option, organize the internal audit activity according to the internal audit norms developed and approved by the Chamber in accordance with international internal audit standards;

-the exercise of the internal audit activity in private entities is carried out in accordance with the international internal audit standards and adopted by CAFR and in compliance with all regulations issued by CAFR on internal audit activity, for which the Chamber is competent, according to law, internal audit private entities are carried out according to the following procedures: internal audit plan procedure, mission order procedure, preparation, updating and validation of declarations of independence, notification procedure for initiating the internal audit mission, opening meeting procedure, procedure for collection and preliminary processing of information, procedure for identification and analysis of objectives, activities and risks, the procedure for the initial evaluation of the internal control, the procedure for elaborating and finalizing the audit mission program, the procedure for collecting audit evidence, the procedure for reviewing the execution of the internal audit mission and completing the audit files, the meeting procedure for the closure of the mission, the procedure for drafting the internal audit report, the procedure for submitting the draft internal audit report, the conciliation meeting procedure, the procedure for drawing up the final audit report, the procedure for disseminating the internal audit report, the procedure for final

review , archiving the report and the file of the internal audit mission, the progress monitoring procedure, the reporting procedure and periodic synthesis.

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