

INTERNAL AUDIT IN THE CONTEXT OF NATIONAL REGULATIONS

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***Abstract:** Internal audit is an attribute of the management, The auditor having the role of assisting the manager in making decisions about the best possible control over the activity.*

Internal audit makes recommendations but does not take binding measures. Through these information and recommendations (reports), 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.

On the basis of a predetermined methodology and an activity plan approved by the entity's manager, the internal audit carries out a general diagnosis of the internal control system, a system that includes managerial, technical, economic, financial, accounting and other kinds of aspects.

***Keywords:** internal audit, internal audit report, worksheets, internal auditors' recommendations, monitoring the implementation of the recommendations etc .*

1. Content and goals of the internal audit

Internal audit is an attribute of the management, the auditor having the role to assist the manager in making decisions about the best control over the activity.

Internal audit makes recommendations but does not take binding measures. Through these information and recommendations, 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.

Based on a pre-defined methodology and activity plan approved by the entity's manager (based on a mandate), the internal audit carries out a general diagnosis of the internal control system, which includes managerial, technical, economic, financial, accounting, and other kind of aspects.

The internal audit activity is carried out within the economic entity by persons inside or outside it, in compliance of the legal norms.

Internal audit practices are differentiated in accordance with the purpose, size, structure and scope of the entity.

The responsible persons for organizing internal audit activity, coordinating of works / commitments and signing internal audit reports should be a financial auditor.

Economic entities whose annual financial statements are subject to financial audit, according to the law or option of the shareholders / associates, organize the internal audit activity according to the internal audit standards elaborated and approved by the Chamber in accordance with the international standards of internal audit.

In the Government Business Enterprises, national companies, as well as other economic entities with state-owned capital, the internal audit activity is organized and operates according to the legal framework regarding the internal audit of the public entities.

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

According to the norms in force, the internal audit objectives are:

A) verifying the compliance of the activities of the audited entity with its policies, programs and management, as well as in accordance with the legal provisions (compliance with the normative acts and the management's decisions);

B) assessing the adequacy and application degree of the financial and non-financial controls arranged and conducted by the management of the unit in order to increase the efficiency of the economic entity's activity (organization and efficient functioning of the internal control system);

C) assessing the adequacy of financial or non-financial data or management information, knowledge of reality in the economic entity (reviewing the reliability and integrity of financial information);

D) protection of balance sheet and off-balance sheet items and identification of methods to prevent fraud and loss of any kind (economic, effective and efficient use, and protection of financial, material and human resources).

2. Specific methodology to carry out the internal audit

By resolution of CAFR No. 56 from November 2, 2015 approving the Guides to Implement International Standards of Internal Audit, the internal audit norms were approved, applicable to entities, which are submitted to financial audit, in accordance with the legislation in force, norms consisting of: Code of Ethics which sets out relevant principles and rules of conduct for the internal audit practice; International Standards for Professional Practice of Internal Auditing; Specific methodology for conducting internal audit missions.

The procedures for the overall framework of internal audit missions are: the internal audit plan procedure (internal audit plan for year N); the mission order procedure (mission order); the service order procedure (the service order); the drawing up and validation of declarations of independence (declaration of independence); the notification procedure for triggering the internal audit mission (mission notification); the procedure for collecting and processing information (knowledge-making questionnaire); session-opening session (session-opening minute); the procedure for identifying and analyzing risks

(goals, activities and associated risks analysis); the procedure for drawing up the audit mission program (internal audit program); the procedure for collecting audit evidence (worksheets); the procedure for reviewing working documents (the work document centered note); closure meeting procedure (closing minutes); the procedure for drafting the internal audit report (draft report); the procedure for submitting the internal audit report draft (internal note); the conciliation meeting procedure; document (minutes of the conciliation meeting); the procedure for drawing up the audit report document (internal audit report); the procedure for the internal audit report (internal note); the procedure for reviewing the internal audit mission file (revision of the internal audit mission file); the procedure for monitoring the implementation of recommendations (the follow-up sheet for the implementation of the recommendations); reporting and periodic synthesis procedure (annual synthesis report).

The internal audit activity is carried out on the basis of specific procedures.

a. Procedures in the preparatory phase of the internal audit

a1. Internal audit plan

The plan is drawn up annually by the head of the internal audit department and submitted to the audit committee and the managing board of the entity for analysis and approval.

In accordance with the approved of the internal audit plan, the head of the department draws up the mission order that is validated by the audit committee.

The internal audit standards require auditing of all areas of activity and of all structures at least once every three years.

On the basis of this plan, three preparatory works are initiated for an internal audit mission, to which three procedures correspond: issuance of the mission order, issuance of the service order, informing the structures to be audited (notification).

a2. Collecting and processing information

Collecting information about the audited structure or activity has the role of familiarizing the auditor with the field to be audited. This procedure involves:

- identification of the main elements of the economic context in which the audited entity or activity carries out its activity;
- identifying the laws, regulations and norms applicable to the audited structure or activity;
- analysing the organizational chart, operating regulations, job descriptions, formal procedures of the auditable structure or object;
- identifying the control systems for a prior assessment of strengths and weaknesses;

- holding the significant findings and recommendations from the permanent docket and previous internal audit reports relevant to the establishment of the internal audit engagement objectives;
- identifying and assessing significant risks;
- identifying the potential sources of information that could be used as audit evidence.

a3. Opening meeting

This procedure aims at presenting, within an organized framework, the members of the internal audit team, the purpose of the mission, the pursued goals and the working procedures. Participants in the opening session are the members of the audit team and the heads of the structure or activity audited.

a4. Identifying and analyzing risks

The procedure aims at identifying the risks specific to the audited structure / activity and assessing the internal control in the audited structure or activity.

Internal auditors will have to track several points to meet the requirements of this procedure, namely: perform, on the basis of the collected information, the list of auditable activities; assess the identified risks; establish the audit goals for the identified risks; prepare the risk register; setting the overall risk score and risk hierarchy; prepare the table with the goals, activities, and associated risks analysis.

a5. Drawing up the audit mission program

The audit mission program is a work document of the designated internal audit team, based on the detailed themes. For each goal, the specific activities to be performed (studies, quantifications, tests, controls, analyzes, etc.) and the distribution of these activities to the members of the internal audit team and the time periods during which those activities will be performed are specified.

b. Procedures in the phase of performance of the internal audit

b1. Collecting the audit evidence

For this, the auditors perform tests, make judgments about the sufficiency and relevance of the evidence, gather the documents on which they base the conclusions, draw up the worksheets.

The worksheets are drawn up to specify the scope and area of the mission, the source of the data, and the conclusions. These documents comprise several sections which mention the nature and duration of the proceedings, the professional reasoning, the nature and implications of the possible identified exceptions, as well as the conclusions.

b2. Revising the work documents

The purpose of the procedure is to prepare and organize the documents so that they represent a relevant, rigorous and solid documented base for

forming an opinion on the audited objectives. Auditors review working documents in terms of content and form, ensuring that the audit evidence contained in the internal audit engagement file provides for the formation of opinion and recommendations.

c. Procedures in the termination phase of the internal audit

c1. Elaborating the internal audit report project

In elaborating the internal audit report project, auditors use the audit evidence noted in the worksheets. The procedure involves the drafting of the internal audit report project, indicating for each finding of the audit the evidence supporting that finding and sending the report together with the related audit evidence to the head of the internal audit department.

c2. Transmitting the internal audit report project

The procedure ensures that the audited activity or structure has the opportunity to analyze the internal audit report project and to make its point of view on the findings and recommendations of the audit team.

c3. Conciliation meeting

If the person in charge with the activity or the audited structure challenges the findings and proposals made in the internal audit report project, then the complaint is discussed in this procedure. The conciliation meeting is prepared by the auditors, who formulate their views on the appeal filed by the audited entity. Auditors, together with the management of the audited entity, analyze the findings, conclusions and recommendations of the audit report draft to clarify divergent points of view. After clarifying the divergent aspects, the timetable for implementing the recommendations is set.

c4 Mission monitoring (overseeing)

The procedure ensures that the internal audit mission, there were achieved, in good quality conditions, all the set goals, and the head of the internal audit department is responsible for overseeing the internal audit mission.

c5. Disseminating the internal audit report

This procedure aims at sending the internal audit report to the persons included in the report's dissemination list. Also, the internal audit report is sent to the management of the audited activity, the management of the company and those charged with the governance.

d. Procedures in the phase of overseeing the recommendations

d1. Monitoring the recommendations' implementation

The procedure consists in checking up the measure where the auditors' recommendations were implemented.

e. Procedure of reporting and periodical synthesis.

The head of the internal audit department shall prepare and submit to the General Manager of the Company an annual activity report. Also, the head of the internal audit service carries out regular reporting on the findings, conclusions and recommendations to the general manager of the company upon request. This reporting is prepared and submitted by the head of the internal audit department whenever necessary.

3. Conclusions

Internal audit is an attribute of the management, the auditor being responsible for assisting the manager in making decisions about the best control over the activity.

Internal audit makes recommendations but does not have binding measures. Through these internal audit reports, internal audit provides "managerial assistance" to managers at different levels. Internal audit is considered the ultimate level of the entity's internal control system, which it evaluates and supervises.

The scope of internal audit includes all the activities carried out within the entity to achieve its goals, including the assessment of the internal control system.

Economic entities should establish an internal audit function or structure to monitor and assess the effectiveness and efficiency of the internal control system and other activities of the entity.

The internal audit is organized within a separate audit compartment and the head of the compartment reports to the management and communicates directly with the Board of Directors.

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

On the basis of a predetermined methodology and an activity plan approved by the entity's manager, the internal audit carries out a general diagnosis of the internal control system, which includes managerial, technical, economic, financial, accounting and other aspects.

The internal audit activity is carried out within the economic entity by persons inside or outside it, in compliance of the legal norms.

Internal audit practices are differentiated according to the purpose, size, structure and scope of the entity.

Those responsible for organizing internal audit work, coordinating work or engagements, and signing internal audit reports should have the status of financial auditor.

Economic entities whose annual financial statements are subject to financial audit, according to the law or to the option of the shareholders or partners, organize the internal audit activity according to the internal audit

standards elaborated and approved by the Chamber in accordance with the international standards of internal audit.

Regarding the Government Business Enterprises, national companies or enterprises, as well as other economic entities with state majority capital, the internal audit activity is organized and operates according to the legal framework regarding the internal audit of the public entities.

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