

THE INFLUENCE OF INTERNAL AUDIT WITHIN THE ORGANIZATION

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Abstract

Internal audit is considered to be the catalyst for the business models of the contemporary world, given its ability to turn the specifics and potential of each business into competitive advantages. Thus, over time this concept has evolved from an accounting-based approach to a profession that supports corporate governance. The purpose of the article is focused on presenting and identifying the role of internal audit in organizations in terms of the characteristics, functions and responsibilities of internal audit and the role it plays within organizations. At the same time, I would like to highlight the valuable contribution brought by the internal audit to the audited entities as well as its influences on the accounting environment. In this sense, I will discuss aspects related to maximizing the value of this activity through high performance functions, recommendations that I consider a valuable contribution to the literature in the field.

Key words: internal audit functions, internal audit products, risk, control, corporate governance

JEL Classification: M41

I. INTRODUCTION

Internal audit is an activity related to the fulfillment of the management and corporate governance missions of an activity that has evolved considerably in the last period and that has opened new valences for perceiving the concept at the level of the organization. If in the past the audit was a function of the entity focused on solving accounting problems, now this function has developed and includes areas such as corporate governance, risk management, internal control, etc. (Soltani, 2007). Therefore, the internal audit covers the full range of the company's operational activities and consists of a variety of consulting and evaluation services. Thus, we can say that the role of internal audit is defined by summing up the functions it performs, by the responsibilities it assumes and last but not least by the characteristics it represents.

The analysis of the transformations that took place on the definition of internal audit and our attempt to achieve, at the end, a more accurate determination of the essential content currently associated with this phrase, requires a prior clarification on the issue of internal audit functions and its main features. In other words, it is necessary to establish which are the “products” of the internal audit, what is their utility for the organization, as well as the attributes associated with the audit (Zecheru & Năstase, 2005: 20).

A representative scheme of the role of internal audit in the management of the public or private organization is highlighted in Figure 1.

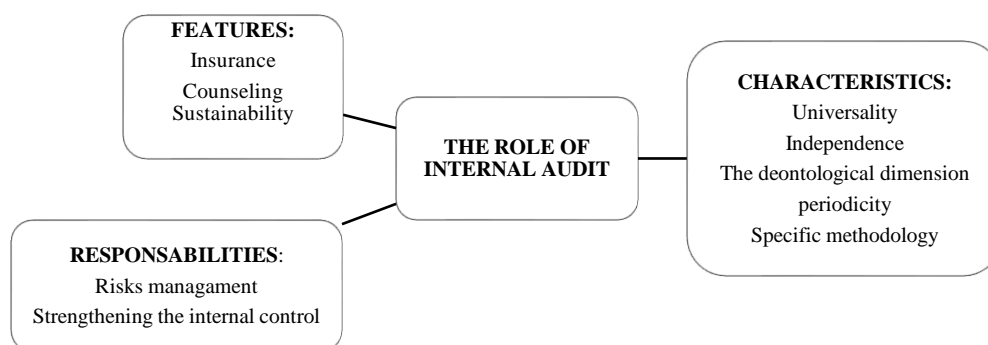


Figure 1 – The role of internal audit within the organization

Source: own projection

As observed in a study conducted by the authors Lucan & Hlaciuc (2017) regarding the role of internal audit in public and private entities in NE Romania in terms of implementing good governance recommendations, it is necessary to know the functions, responsibilities and characteristics of the audit internally within

organizations. The results of the research showed that, depending on the field of classification: private or public, the organizations look at the audit differently, in view of the existence of audit committees as well as the remuneration granted to management. Therefore, private companies outsourced the audit function, while those in the public domain set up an audit department within the company. Aspects such as ethics and values outlined as a result of this audit were taken into account, characteristics that were seriously addressed by the respondents of the study.

Bostan and Grosu (2010) highlighted the role of auditing in the prevention of accounting fraud, given that any type of governance, regardless of how it is configured and the reference market in which it is located, in order to meet efficiency characteristics, must provide for appropriate control mechanisms to intervene in critical situations and to protect the interests of all categories of users.

In order to efficiently and completely outline the role of internal audit within the organizations, we aim in the following to present the characteristics and functions that the audit meets so that in the end we can sketch the responsibilities that it has within the entity.

II. CHARACTERISTICS OF THE INTERNAL AUDIT

We can say about the internal audit that it presents a series of essential characteristics that detach and delimit the functions it represents from other similar structures. These features are essential in shaping the role of internal audit in the public and private sectors. The most important features taken into account are: universality, independence, periodicity to which objectivity is added, deontological dimension, specific methodology (Ghita, Hlaciuc, Boghean, & Ghiță, 2010: 266).

The universality of the internal audit results from the extended scope of the audit covering all activities performed within the entity, compared to the financial audit, for example, which covers only the activities in the financial accounting field. The universality of the internal audit is based on the model of the public sector, being sketched through laws and regulations developed by the Ministry of Public Finance which have a general character but also on the model of the private sector alike.

Internal audit is an independent activity conditioned primarily by the professional competence of auditors. Only well-documented internal auditors have the ability to detect anomalies and make the most relevant recommendations. We can say with certainty that without guaranteeing this feature, the internal audit cannot reflect a relevant and credible result. Therefore, the audit activity must be independent and the internal auditors must be objective in carrying out their task. These features emerge from the standards developed by the IIA and refer to organizational independence, in the idea that the executive coordinator of internal audit reports to the highest level of management (Internal Audit Standard 1110, 2012: 8). Also, internal auditors should not be part of the systems they audit, nor should they be subordinated to other departments (Oprean, Popa & Lenghel, 2007: 106).

The periodicity of the internal audit is a characteristic derived from the fact that the activity is carried out at regular intervals. However, the frequency of audit missions will be determined by the risk assessment activity based on the audit plan.

Another feature discussed is objectivity. This feature stems from the fact that the auditor is a person with a high degree of professional training and the quality of auditor gives him a higher degree of interdependence with the management of the institution.

The deontological dimension can be considered a characteristic of finesse as it is based on specific professional obligations with ethical implications. Therefore, the internal auditor must comply with a pattern that reflects the integrity, fairness, confidentiality and competence requirements set forth in the Code of Ethical Conduct for the Internal Auditor approved by OMPF on February 3, 2004.

The last feature discussed is that of the specific methodology which consists in the set of procedures that the internal auditor follows in his approach. What is important to emphasize at this point is that respecting the algorithm according to which an audit mission is carried out as the non-observance of the logical succession of the methodology causes the final audit report to be reached of partial or total nullity.

III. INTERNAL AUDIT FUNCTIONS

According to the definition found in the standards of the Institute of Internal Auditors (IIA), the functions that define the internal audit activity are three in number, namely: insurance, consulting and general sustainability of the organization. We can say that the first two functions are materialized in the activities of sight of managerial assistance that the internal auditor performs regularly in order to strengthen the managerial control. The function of sustainability has been discussed for some time and focuses on increasing its effectiveness in managing the problems and processes of the entity seen as a whole.

The transition to a knowledge-based economy offers the internal audit a generous and favorable area in which it can develop its specialized techniques and applications in the evaluation of predominantly intangible elements (Tabără, 2014: 362).

III.1. Insurance function - a necessity

Insurance is the function of internal audit through which professionals independently certify the processes of identifying risks that may occur in the activity of the organization, as well as control and governance processes. The insurance function primarily aims at certifying the processes regarding insurance missions.

As it can be seen from the specialized theoretical approaches (Arens & Elder, 2012), assurance in the field of internal audit consists in the objective examination of audit evidence in order to develop an independent evaluation that aims to formulate recommendations to internalize the added value in providing an insurance, compared to the financial audit which is focused on the certification of the accounting records.

According to the Internal Audit Standards, the assurance process aims at formulating independent opinions or conclusions regarding an entity, an operation, a function, a process, a system or another subject to be audited.

Regarding the typology and the scope of the assurance missions, we can say that they are determined by the internal auditor. For a good unfolding of the audit process it is necessary the participation of three categories of stakeholders. First of all, we remind the person in charge of the process, consisting of a person or group of people directly involved in the audited entity, position or subject. An assurance engagement can only be performed by the internal auditor, who can be a person or a group performing the evaluation, and we must also mention the beneficiary of the engagement, represented by the entity that will use the outcome of the evaluation. (Guide regarding the implementation of the international standards of internal audit, 2019).

III.2. Consultation function - a prerequisite for added value

Advising or consulting is the activity performed by internal auditors aimed at improving the entity's administration, risk management and internal control, without the internal auditor assuming managerial responsibilities.

We can say about consulting that it represents one of the basic functions of internal audit as its result consists in recommendations given to the entity in order to increase the quality of decisions at managerial level. The counseling activity involves performing complex services such as (Grosu, Zecheru & Socoliuc, 2014):

- consultancy in order to identify the obstacles that prevent the normal development of the processes, to establish the causes, to determine the consequences, presenting at the same time solutions for their elimination;
- obtaining additional information for in-depth knowledge of the operation of a standard system or a normative provision, necessary for the staff responsible for their implementation;
- professional training and development designed to provide theoretical and practical knowledge on financial management, risk management and internal control, by organizing courses and seminars.

Within organizations, insurance and consulting services represent the most numerous services that internal audit performs. But we must see things beyond them in order to achieve the much desired value. In this idea we discuss the following function.

III.3. General sustainability function - a premise for added value

This function aims to support the internal audit activity in all three horizons that it includes: encouraging and promoting the development of risk management within the organization, increasing the efficiency of internal control and improving the governance process in the organization.

We support Renard's statement (2002: 35): "plus the value of the internal auditor is not his report, the latter being only a means of communication, not even his recommendations. Its value is the ability to advance the internal control of the organization it serves. Hence the idea behind this function of sustainability as the examination of internal control is the "raw material" that serves the internal audit process to strengthen its main role, to support the organization in organizing and developing an appropriate internal control system. , contributing to its continuous improvement. Therefore, the functions of the internal audit can be highlighted schematically as follows:

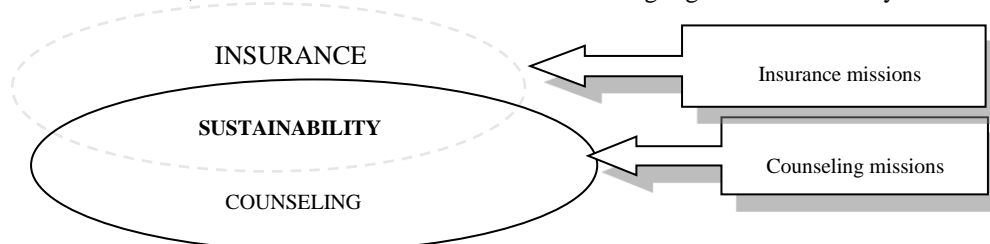


Figure 2 -2.4 The functions of the internal public audit

Source: own projection

I decided to highlight the function of sustainability as an intertwine between the other two functions: insurance and advice as I considered it to be the support for creating added value so desired by economic entities, regardless of size, profitability or scope where it operates. According to studies in the specialized literature (Mihret & Yismaw, 2007; Dumitrescu Peculea, 2015) internal audit has implications both in the public domain and in the private sphere of large companies.

IV. RESPONSIBILITIES OF THE INTERNAL AUDITOR

Along with the manager, the internal auditor through the functions he performs, the opinions drawn and the findings made must seek to support the organization as a whole in order to achieve the proposed objectives.

In this regard, I will present the main responsibilities of the internal auditor as follows:

Table 1. Main responsibilities of the internal auditor

No.	Responsibilities of the internal auditor	Defining
1.	Identifying and assessing significant risks as well as improving their management	- the audit must assess the risk exposures, analyze the processes and organizational relationships, determine whether they are sufficient by forming relevant recommendations
2.	Strengthening managerial control	- the main responsibility of the auditor regarding the control is traced by the need to ensure senior management that: the entity's goals and objectives correspond to those of the lower management levels, the criteria for evaluating the control structure are adequate, competencies are clearly delimited by existing documents and control processes have the expected effectiveness.
3.	Increasing the capacity to manage all specific organizational processes and relationships	- the contribution of the audit to the improvement of corporate governance can be achieved by continuous monitoring and evaluation of the entire management system, by formulating recommendations that define and communicate the organization's values, constantly monitoring the achievement of objectives and last but not least by consolidating the values that form the culture of the organization.
4.	Issuing anti-corruption initiatives	- the factors most frequently associated with committing acts of corruption are opportunity, pressure, rationalization and bureaucracy, characteristics that form the diamond of fraud; Strengthening the internal audit and performing it responsibly is generally perceived as the best method of reducing opportunity risks, the only one of the four factors in the possibility of direct control by the management of an entity.

Source: Adaptation after Grosu, 2019

Although the grouping of organizations into private and public has a relatively low rationality, it is considered that the bureaucracy reaches the maximum level within the public structures. This factor must involve internal audit in order to develop and improve the work carried out by public institutions, but also the services they provide to citizens, as objective and essential needs to ensure convergence with economically advanced countries in Europe and the world.

In the opinion of Grosu et al. (2014), an effective risk control device must consider the following:

- first of all, the main risks that may arise as a result of the company's strategic decisions and activities are identified and ranked;
- establishing an acceptable level of inherent risks by management;
- identifying and using essential measures to reduce risks to an acceptable level;
- continuous monitoring of the evolution of risks, and of the effectiveness of internal controls as well as their periodic reassessment;
- periodic analysis, at the level of top management, of the evolution of the risk issue and drawing conclusions, recommendations;
- identification of procedural activities.

Anti-corruption programs should include a code of conduct to regulate policies regarding gifts received, political and charitable contributions, delegation of authority, as well as establishing accounting policies for the correct recording of transactions (Singleton & Singleton, 2010: 146).

I believe that special attention should be paid to risks arising from the nature of an organization's relationships, the degree of business with government entities, the size of the company, as well as their regulatory environment.

An effective anti-corruption compliance program must be risk-based to ensure that it is properly designed to implement strategies and allocate resources to mitigate specific risks and the most important phenomena of corruption and bribery that the organization faces. Through the presentation of the functions, responsibilities and characteristics of the internal audit, we outlined and developed its role within the companies. We believe that if these elements are observed exactly, the internal audit will bring transparency, added value to the organization and to the same extent will contribute to the improvement of the organizational culture, helping the managers and the board of directors in substantiating the decisions.

V. VALUE CONTRIBUTION BROUGHT BY INTERNAL AUDIT TO ORGANIZATIONS AND THE ACCOUNTING ENVIRONMENT

The easiest way to convince someone of the importance and purpose of internal audit is to demonstrate that it brings value to the organization.

For the purpose of a complete and explicit research, we considered it necessary to establish a priori the significance of the concept of "added value", or "value contribution", fact for which we turned to numerous sources, opinions and values belonging to several specialists.

A first definition taken into account is the one according to which, the added value, from an economic point of view, is in the indicator that allows the quantification of the value newly created by the entity following the development of its current activity. Added value can also be defined as a surplus of wealth to be added by capitalizing on human potential and its contribution to achieving added value (Boța-Avram, 2009: 111-119).

As we well know, the measurement of added value is easier to do where we have quantitative numerical values, such as the production process of a good. In the case of internal audit, it is difficult to quantify the added value brought to the entity because the results of the auditor's work are reflected by those opinions regarding the catalog of risks and the organization of the internal control system, recommendations whose fundamenting remains at the manager's discretion.

The notion of added value is also common in auditing standards in many discussions about how to evaluate it. The services provided by the internal audit service refer either to advising the management to make things better, or to ensuring the correct functioning of the internal control system, but the manager remains ultimately responsible for the decisions taken. The qualitative value of the audit work is not only represented by its report but also by the recommendations and conclusions offered, which in fact constitute a means of communication with the management of the audited entity. The importance of internal audit is determined by its ability to improve the control system of the entity (Ghiță, Hlaciuc, Boghean & Ghiță, 2010: 802).

According to the professional norms of internal audit, the "value contribution" offered by this activity is identified when the internal auditors work based on principles adapted to the culture and resources of the audited company, when the services offered are of quality. Henry Ford [1] made the following statement: quality means doing the right thing when no one controls you. Thus, successful organizations are those that have a clear vision of what value means to customers and shareholders. They do their best to achieve the desired quality by measuring performance and are always looking for opportunities to improve the products and services offered. Internal auditors are perfectly positioned to embrace the quality of processes in order to improve their own audit functions (Pitt, 2014: 13).

In the same assent, we specify that it is necessary for the professional to give due importance to the knowledge of the aims and objectives of the audited organization. We can say that an added value indicated in the definition of internal audit, is found following the assurance and quality consulting missions, whose objective is to support corporate governance and management in making the right decisions.

In the research on the added value brought to the organization by the internal audit function, we also took into account the provisions of the deontological code of auditors (see [https://na.theia.org/standards-guidance/Public%20Documents/Code%20of%20Ethics % 20Romanian.pdf](https://na.theia.org/standards-guidance/Public%20Documents/Code%20of%20Ethics%20Romanian.pdf)) which promotes four essential features of them, namely: integrity, objectivity, confidentiality and competence. Through integrity, internal auditors emphasize the value added to the level of trust and credibility given to the professional reasoning they use in the activity.

We can say that internal auditors show a high level of professional objectivity in collecting, evaluating and communicating information related to the activity or processes under examination.

A feature that ensures and adds value to the activity is also confidentiality, which assumes that internal auditors must respect the value and ownership of the information they receive and disclose it only on the basis of legal authorizations.

From the competence point of view, we can say that internal auditors use the knowledge, skills, experiences necessary in the exercise of the functions and services of internal audit activities.

Therefore, we can say that if the requirements of the code of ethics are unanimously observed, the internal auditors will have the necessary attributes to solve completely and competently the problems of the organization.

But from our point of view, it is not enough. Therefore, we propose respecting four essential principles that support and direct the activity of the internal auditors and managers of these organizations to obtain the desired value.

The principles that orient the activity towards surplus value are:

Increasing the performance of the internal audit activity by creating new functions. We refer here to aligning the client's audit wishes, focusing on business risk and conducting a preventive audit.

Channeling to new valences in risk assessment and presentation of recommendations. In this sense, we recommend using the SMART writing system (Adams & Winstead, 2008) (S-specific, M-measurable, A-achievable, R-realistic, T-defined over time) in writing the audit report;

Ensure proper control and use of self-assessments to encourage increased quality;

Ensuring compliance with corporate governance guidelines.

Regarding this last principle, Witley (2005: 21) highlighted in his paper the main steps that internal audit must follow in order to improve the corporate governance process. First, the author believes that the auditor should assist the board in self-assessing its governance. It must also promote to the audit committee best ideas, best practices on internal control and risk management processes. Another aspect to be pursued is the search for opportunities to streamline compliance in order to reduce long-term costs. In order to improve corporate governance, the internal audit should review the code of ethics on an ongoing basis to ensure that it is current and properly communicated to the entity's employees. A final aspect presented by the author is the inclusion of information and transparency objectives in the annual audit plan.

I can say accordingly that the role of internal audit in the evolution of corporate governance as well as in supporting the financial-accounting field is an active and appreciated one.

Through the correct use of skills and abilities, the organization's management benefits from the recommendations and observations that come from the internal auditors only after they have mastered the processes through which the audit entity operates, have established their objectives oriented towards good practices, improvement and advancement.

VI. CONCLUSION

Although it is given increasing importance and is considered a crucial factor in the success of the business, internal audit has not been the subject of major research studies, moreover, some researchers and practitioners have questioned the value it generates.

I believe that the ways in which we can maximize the value brought by the internal audit of companies can be:

Lack of alignment between the interests of the chief executive represented by the members of the board of directors and management and the members of the internal audit structures (audit committees) in terms of the value of the internal audit and its performance. The notion of alignment implies bringing to the same common denominator the management staff with the professionals in the internal audit issue. As the knowledge, interests and visions of the participants in this approach are of a subjective nature, this does not create favorable premises for understanding the importance of the audit function and implicitly of the added value brought. Moreover, the lack of alignment can show shareholders a failure of internal controls, a failure often attributed to management. To avoid these problems, remedial measures need to be taken, with the support of external auditors and audit committees.

Developing the capacity of internal audit to perform new functions. As we all know, any journey has its ups and downs. In order to redefine itself as a concept in what is intended to be a modern audit, internal audit requires support from all users. It needs to evolve into new dimensions, from the traditional insurance model, with an emphasis on the validity of mature controls and processes, to a risk-based model that gives us the ability to take into account emerging situations and processes. which can be a fruition of our time.

The contributions of the internal audit to the entity's efforts to manage critical and emerging risks. Through modern methods of risk identification, analysis and modeling, the internal audit activity orients companies towards less risky dimensions.

Eliminating asymmetries between managers and business owners. In this context, we resume the classic problem of agency theory and integrate it into the scope of audit. We wonder how could it influence the agency's costs, the aspects related to the internal audit? In direct line, these expenses do not generate substantial changes, but may influence the recognition of the opinions provided to managers by auditors. In this regard, we call on the good governance practices issued by the OECD and emphasize the transparency and reduction of the reporting period. The potential loss caused by fraud and error must also be taken into account.

End notes

[1] Henry Ford (July 30, 1863 - April 7, 1947) was the founder of the American automobile industry, founded the Ford Motor

Company (1903), author of a new way of organizing industrial production, known as Fordism according to site: https://ro.wikipedia.org/wiki/Henry_Ford.

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