INTERNAL AUDIT- PILLAR OF THE INTERNAL/MANAGERIAL CONTROL SYSTEM

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Abstract:

Internal audit, especially in a public sector where public money is involved, is to be considered a pillar of management, a pillar of internal control. Internal audit is linked to internal/managerial control by laws and regulations. In this paper we are aiming identifying the reasoning of this close connections between internal audit and managerial system and presenting some aspects regarding the deployment of internal/managerial control system. The needs of economic entities are mainly common with the human needs, respectively are limitless, complementary, have the capacity to regenerate and are conditioned objective and subjective. In public institutions and economic entities in which the state is shareholder, meeting these needs and ensuring business continuity are more important, given that they are entities of national importance and have an increased public and social responsibility. We can say that the internal audit was developed in response to these needs (of economic entities), with the purpose to improve and add value to activities.

Key words: internal auditing, internal control, managerial control, added-value, goodwill

JEL Classification: G32, M10, M42

1. Introduction

In this paper we rely on the normative acts in force in Romania with reference to the internal / managerial control system (abbreviated IMCS) and legislation on public internal audit.

When we reffer to internal control we reffer to all forms of control exercised at the level of the public entity, including internal audit, established by management in accordance with its objectives and legal regulations, to ensure funds management in an economic, efficient and effective way, which include organizational structure, methods and procedures. (OG 119/1999)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Law 672/2002)

Regarding the implementation of internal/managerial control system in public entities, a series of laws and regulations have been adopted in Romania. We will take as reference the newest ones, published in 2015 and 2016. According to legislation, public entities are required to implement a code of internal / managerial control through adoption of 16 standards of control. (OSGG 400/2015)

These standards are aplicable to all public institutions/entities.

In the next table we present some of the elements representative for internal/managerial control, elements that we considered to be significant.

Table 1. Significant elements regarding internal/managerial control

Significant elements regarding internal/managerial control
Internal/managerial control is a management function, rather than a verification operation
An efficient implementation of IMCS ensures methodic functions, is a methodical procedure for the exercise of management
IMCS represents a minimum of regulations applicable by the mangement

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An efficient IMCS it supposes to be exercised over all management functions during exercise not only ex-post
IMCS should be adapted to the specific of the entity, there is no pattern of the IMCS that could be applicable to all entities
Has refference in all levels of government and in any activity in the entity, being compulsory for all.
Costs of applying measures to implement IMCS has to be lower than the benefits from it

Source: selection of data and personal representations

2. The connection between internal audit and internal/managerial control system

OSGG 400/2016 presents a minimum of aspects regarding the relation between internal audit and IMCS, through the Standard number 16 (see Table 2. Internal audit and internal/managerial system)

Table 2. Internal audit and internal/managerial control system

Internal audit and internal/managerial control system	
Aspect	Observations
A public entity should have a departament of internal audit.	- Proper sizing of the internal audit department: the departament of internal audit should be sized based on the volume of activity and the size of the associated risks - existence of competent internal auditors - internal auditors must enhance their knowledge, skills and values in vocational training and preparation to ensure compatibility with the type and nature of internal audit work to be performed
Internal audit assures an independent and objective evaluation of IMC system.	The business of internal audit should provide assurance on the risk management, control and leadership (government).
Reporting in internal audit	- The internal auditor completes its actions through audit reports, which sets out the weaknesses identified in the system and make recommendations for their elimination. - The head of the public entity should take the necessary measures, having regard to the recommendations of the internal audit reports in order to eliminate weaknesses found by the audit missions.

Source: selection of data and personal representations

3. For a better understanding os IMC system, we consider adequate conducting a mission to provide advice in order to ensure understanding by those responsible of the need to implement an IMC system and the implementation mode.

In that regard, we developed a series of documents, resulting in tables for better presentation, in which we have identified issues which we considered significant in implementing the IMC system.

Table 3. IMC system: organizational process and implementation

Objective	Activity/question
Implementation	**1.** The existence of a decision through which has been set up the working group for monitoring, coordination and methodological guidance of deployment and/or the development of the internal/ managerial control system. **2.** The Monitoring Committee comprises leaders of departments from the flowchart?Members duties to be registered in the job description **3.** It is appointed a president and a committee secretary by the decision? **4.** No decision has lodged the management risk team. **5.** Establish someone to be in charge of drawing up and updating the risk register for each compartment. **6.** Is there a development program of IMCS? **7.** The program of IMCS was developed and approved in the current year? **8.** The monitoring committee established met periodically and anlysed the production method and the deployment of the stages and deadlines of the IMCS development programs and established the appropiate measures to realise an efficient control system? **9.** In the program of IMCS development were included professional training activities for both managerial and execution staff and the professional training operations were in accordance with the requirements of the program? **10.** Are developed procedures for processes and for the identified activities according to Annex 2b of the OSGG 400/2015? **11.** Is there a Regulation on the organisation and functioning of the Committees? **12.** Responsabilities necessary for the activities are established by the institution through the organization rules and through the job descriptions of the employees? **13.** Is there a list of the objectives and activities? **14.** Is there the list of the objectives, activities and risks? **15.** Self-assessment questionnaires are completed? **16.** There is a document to provide the circuit of the documents and information?Means of communication within the entity. **17.** There is a programme of training of the responsible staff for IMCS? **18.** There are files with the minutes, decisions, resolutions of the Monitoring Committee?
Reporting	TABLE I. Half-yearly reports have been completed? TABLE II. Annual reports have been completed? TABLE III. There is an annual report of the director, annex to the annual financial statements on the status of IMCS implementation?

Objective	Activity/question
Standard 1. Ethics and integrity	TABLE IV. There is a code of ethical conduct? TABLE V. There is a document acknowledging the provisions attached to their personal code of ethics? TABLE VI. Are there any regular testing knowledge of the code of ethics? TABLE VII. There is a procedure related to reporting irregularities?
Standard 2. Responsabilities, functions, tasks (duties)	TABLE VIII. There is a (ROF) Regulation on the organisation and functioning at entity level? TABLE IX. There are internal rules and regulations? TABLE X. Are the job descriptions established for everyone? TABLE XI. Existence of the Analysis of sensitive functions.
Standard 3. Competence, performance	[1] The posts are filled by competent persons? Studies, preparation, etc. [2] There are annual assessments of professional performance? [3] There are provided annual training courses?
Standard 4. Organizational structure	[4] Existence of the flowchart [5] Is this updated (the flowchart)? [6] The grading of the staff from the organization chart is to be found in the state of functions, respecting the accordance between the nature and necessary skills. [7] The delegation is made through ROF, job description, express order? [8] The act of delegation complies? It contains all the elements?
Standard 5. Objectives	[9] The specific objectives are defined according to the SMART requires? [10] Are the objectives updated/reassessed as a result of transorming the internal/external environment? [11] Are targets defined fot each department?
Standard 6. Planification	[12] There are plans/programs for the attainment of the necessary resources and with obvious deadlines?
Standard 7. Monitoring performance	[13] Are established performance indicators for the identified objectives? [14] The attainment of the objectives is monitored? [15] The leaders of the compartments monitors the performance by the annual preparation of the list of the objectives, activities and performance indicators and draw up an annual report sent to the Monitoring Committee. [16] The secretary of the Committee will collect the reports from the leaders of the compartment [17] The management of the entity shall evaluate the performance and finds irregularities, take corrective measures.
Standard 8. Risk management	[18] There is a strategy for the risk management? [19] There is a record of the risks? [20] Each department leader will identify the risks of the department.

Objective	Activity/question
	[21] The Secretary of the risk committee centralizes the risks and elaborates The Plan for the implementation of the measures control
Standard 9. Procedures	[22] There are written procedures for all the activities? [23] Are the procedures updated? [24] Are these adapted to specific feature? [25] There are overlaps procedure? [26] Non-existent procedures on certain activities. [27] Are the procedures complete > responde to queries:"Who, when, where, how, with what?"
Standard 10. Supervision	[28] The duties, responsibilities, limits of competence have been communicated to each employee? [29] Is systematically evaluated the activity of each employee? [30] The results of the activities are approved in various stages of implementation?
Standard 11. Going concern (continuity in activity)	[31] Are inventoried situations that may lead to any black spots in the activity? [32] There is an plan of continuity of activity, which should be based on the identification and assessment of risks which affect business continuity? [33] Is the continuity plan accessible to all employees? [34] Are identified the activities, processes, the essential functions of the entity in a documents approved by the management and archived?
Standard 12. Information and communication	[35] Are laid down the types of information, content, quality, frequency, sources, their recipients and develops an effective system of internal communication and external, so that management and employees to fulfill effectively and efficiently the tasks and information to reach complete and timely to users [36] There is a document in which to establish the methods and ways of internal and external communication?
Standard 13.Documents management	[37] There are rules, procedures concerning the registration, dispatch, drafting, filing, protect and keep documents? [38] There is an archive of the entity? [39] There are security measures to protect the documents against the destruction, theft, loss, fire, etc?
Standard 14. Accounting and Financial reporting	• There are procedures to follow with the work of financial accounting? • Financial statements are accompanied by the annual reports of the performance?
Standard 15. Evaluation of the IMCS	• Annual report on IMCS is developed by the management? • Adequate and timely measures are taken to establish the degree of compliance of IMCS with IMC standards? • There is a procedure for assessing IMCS?
Standard 16. Internal	[1] There is an internal audit department?

Objective	Activity/question
audit	[2] Internal audit department is sized properly? [3] Are assumed the duties of the head of internal audit department by signature? [4] Requirements are being complied with the professional preparation of the internal auditors? [5] Are reported the weak points and made recommendations on the internal audit reports? [6] Measures are taken on the recommendations of the internal audit reports?

Source: selection of data and personal representations

Conclusions and proposals

Mainly through the implementation of these standards, a system of internal/managerial control aims to provide reasonable assurance that the entity is functioning well at all levels according to the expectations of the beneficiaries. Note that this is a reasonable assurance, the fact that an entity has the IMCS implemented completely, this does not guarantee 100% that the entity would register profit and that it will continue it's activity based on the going-concern principle.

I discovered (through the nature of the work that I develop), that in practice there is a lot of struggle with the implementation of the system. Implementing an internal control system is cumbersome because of reluctance of employees and the fact that many do not understand the importance of a control system and do not understand the terminology used in this area. What I think is to be taken into account, although the intention of the government is good in this regard, to implement a IMC system takes time and a lot of effort, especially because of the wide large of paper to elaborate. An IMC system should not be a burdem for the management and for the head of departament.. Sometimes, checks over checks and over checks does not lead to an improvement of the activities, does not lead to the recording of performance, but on the contrary lead to decreased performance, decreased interest in work, particularly in the areas / activities / departments that take more than the production and staff do not have an inclination and a great interest in terms of the administrative and completeness of the papers. An IMC system should be easy to understand, easy to implement at all levels of perception.

References
Law 672/2002 on public internal audit.
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O.S.G.G. 201/2016 approving the Methodological Norms on the coordination, methodological guidance and supervision of the implementation stage of the internal/managerial control system in public entities.