

THE ROLE OF INTERNAL AUDIT IN THE CONSULTANCY OFFERED TO ORGANIZATIONAL MANAGEMENT

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Abstract:

The function of internal audit has occurred after successive overlaps with other forms of control, resulting in the need to increase the number of specialists in internal audit. Defining internal audit as an activity that adds value has happened in the conditions under which its characteristics were crystallized: universality, independence, and periodicity. Being structured as a separate activity within the economic entity, internal audit is an independent evaluation function, and the "beneficiary" is entity's management. The aim is for the firm to base its decisions on the conclusions and recommendations resulting from the audit. Internal audit is based on professional standards and norms, procedural guidelines and codes of conduct that form a flexible reference framework internationally recognized, which can be adapted to legislative and regulatory peculiarities of each country. This allows internal audit to add value by its ability to improve internal control system of the organization, but also through the communication to management of solutions regarding risk assessment, reorganization of management control, and change in the mentality of the audited.

Keywords: *audit concepts, audit evolution and organization of its specific activity, evaluation of audit departments, necessity and objectives of the audit.*

1. Introduction

Specialist D. Matthews (2006) in his work „A history of auditing: the changing audit process in Britain from the Nineteenth Century to the present day” presents chronological the progress of audit in general, with a particular focus on audit in the UK, using for the first time the interview technique by conducting interviews with retired chartered accountants and those active but with a rich professional experience.

Emergence of economic activities, of incipient financial transactions in the very distant history of mankind, has generated the need for knowledge and information on their "dimensions". Various forms of evidence, especially regarding money and public goods' management, can be identified since antiquity.

Evolution occurred over time, both in the economy and in ways of reflection and verification of economic processes. Thus, after several stages in which terms, types and objectives overlapped and intersected, a clear delineation of each "domain", in terms of recording data, informing on economic events, and then examining, verifying, analyzing them, was achieved.

Based on the needs and complexity of activities in the contemporary society, we can essentially define accounting as a process outlining, classifying and describing economic events, in a logical order, to provide relevant and necessary information to decision-makers and others. Accounting's function of quantitative information provider is doubled by the need of professional accountants to understand the principles and rules governing it.

Audit (which originates from the Latin "auditus" meaning to listen, to hear) reveals his objective as determining the extent to which accounting information reflects objectively the economic events in a given period.

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2. Research Methodology

We have used the comparison method in most of the article to highlight specific features of internal audit within commercial entities which are distinctive from those of internal audit of public entities. Research methodology used in this paper combines quantitative with the qualitative research indicating that the effectiveness of results obtained from research would be greater if an optimal combination would be made between the quantitative-qualitative researches in order to achieve objectives.

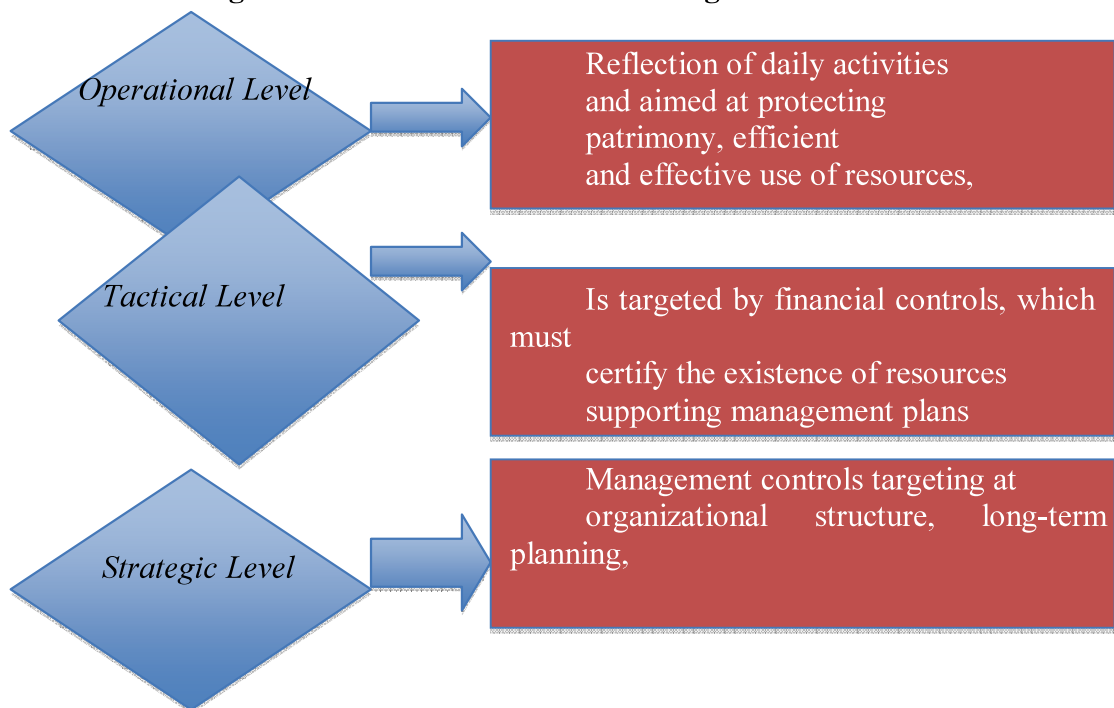
Over time there has been a need for internal audit activity, as a function within organizations, starting from financial-accounting domain and subsequently expanding its goals.

There were moments in the beginning when the concept of internal audit overlapped that of internal control, but their fields of action were established at last.

The attention of management any organization is focused on the management of risks those continuously emerge and evolve in order to avoid unwanted effects. Hence it has proved necessary the organizing of an internal control system within each entity, which then became the subject of internal audit.

If we overlap management control actions on the managerial levels of any organization, it is observed that the accounting can be found at the *operational level*, where internal control is focused on recording and processing data.

Figure 1. Control Activities on Management Levels

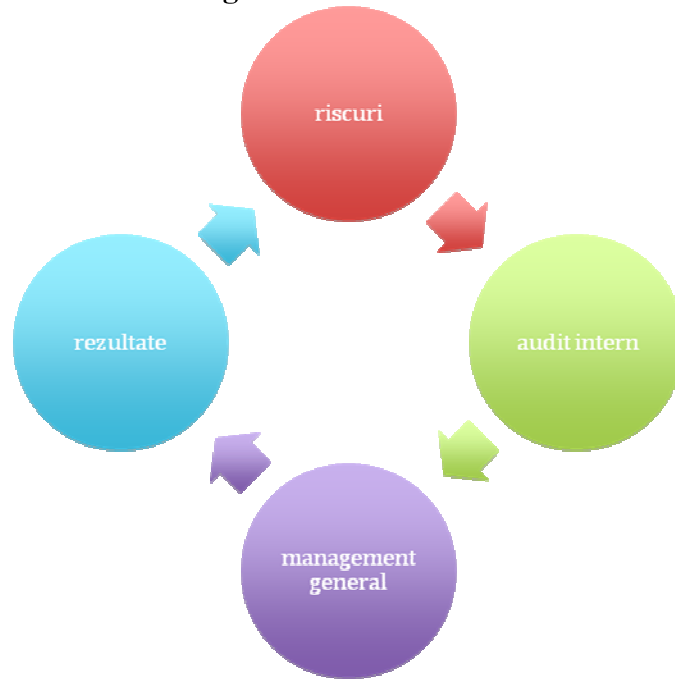


Source: Author's projection

Internal audit, structured as a separate activity within the economic entity, is an independent evaluation function, the 'beneficiary' being the management of the audited department. The aim is to support their decisions on the conclusions and recommendations resulting from the audit.

In practice, it is necessary to understand the relationship managers-internal auditors as a partnership, not one based on opposite sides, that has the same objectives, to achieve the targets and bring effectiveness to the managerial act.

Figure 2. Internal Audit Role



Source: Author's projection

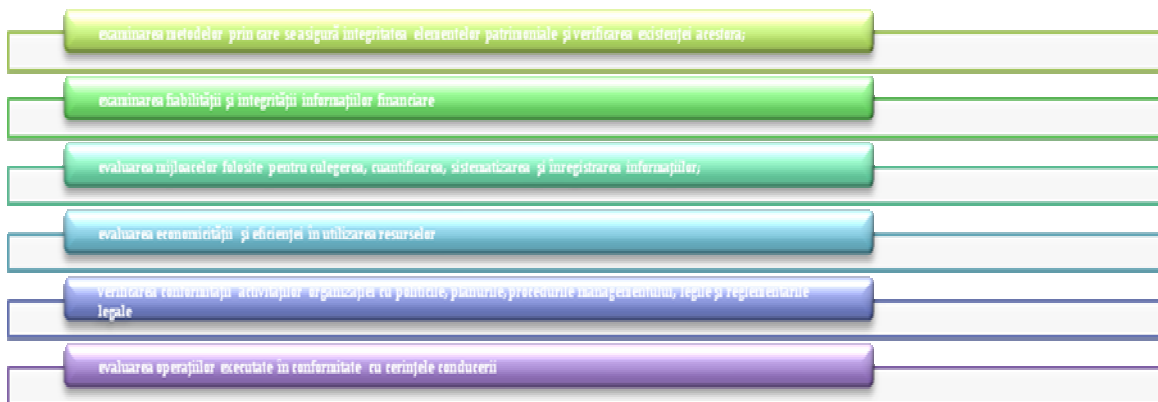
As can be noted from the above mentioned, the role of internal audit is considered materialized if the strategic guideline of organization does not interrupt. Internal audit assesses any department, office, activity of the organization, providing analyses, recommendations, and information for the managerial team.

The aim is to help organization's members to effectively take on their responsibilities and find solutions to eliminate possible malfunctions or irregularities encountered.

The objective of internal audit is to provide evaluation at a reasonable cost, aiming at the relevance and effectiveness of the internal control system within the economic entity.

Considering these aspects, one can identify the main functions of internal auditors as:

Figure 3. Responsibilities of Internal Auditors



Source: Author's projection

Thus, it is considered that the organization has received real benefits resulting from the professional skills of internal auditors, by systematic evaluation, based on audit standards and best practices, policies, procedures and activities of the entity.

Value added by internal audit can be expressed by "evaluation of internal control and analysis of all risks" associated to audit activities, and also by the recommendations contained in the report prepared and submitted in order to ensure the organization's objectives."

But it is necessary to emphasize that internal auditors are not able to certify protection from risks or dysfunctions of the activities audited, because of the relativity of internal control. Evaluation of the entity's internal control system allows reasonable assurance regarding management functionality, from the perspective of the internal auditors. Objectives can be achieved if there is a well organized, formalized system of internal control.

On the other hand, internal audit is based on professional standards and regulations, procedural guidelines, codes of conduct that form a flexible reference framework internationally recognized which can be adapted to legislative and regulatory peculiarities of each country.

Reference framework of the internal audit includes:

- Internal audit concept, which states a few essential elements:
- internal audit carries out assurance and consultancy missions;
- its areas of responsibility are risk, internal control and management of the entity;
- internal audit's purpose is to add value to the organization;
- Audit Code of Conduct, which provides internal audit principles and values that allow auditors to direct their professional practice depending on the specific context;
- professional standards for internal audit practice that guides auditors to management tasks and specific activities;
- practical implementation standards that comment and explain the standards and recommend the best practices;
- support for professional development, consisting mainly of studies and articles of doctrine, and documents of colloquia, conferences and seminars.

To successfully fulfill the purpose for which it was created, in relation to organizational management, internal audit function must have a constitutive document, Internal Audit Charter. This has the role to present internal audit to other departments and functions of the entity.

Internal Audit Charter importance is highlighted by its regulation in professional norms, considering that:

- a. defines the position of internal audit within the entity and its objectives;
- b. sets internal audit's scope, area of activity, level of independence that ensures its objectivity in performing tasks;
- c. specifies authorization for access to documents, individuals, physical locations so to achieve appropriately the tasks of internal audit;
- d. makes sure that internal audit - management relationship is understood after the examination and approval of Internal Audit Charter, which becomes an official document of communication;
- e. indicates the role and position of internal audit for all hierarchical levels of management, avoiding misunderstandings.

In order to clarify all aspects aimed at internal audit activities, carrying out insurance or consultancy services for the management, the Internal Audit Charter necessarily refers to the following important points:

1. *internal audit function*, often found in practice as internal audit definition, a statement that establishes its purpose;
2. *independence*, by providing the relationship of internal audit with other parts of the organization, so as to assure its objectivity and impartiality;

3. *internal audit's role and purpose*, pointing out it has access to all activities, personnel and documents of the entity. It is also outlined here the role of insurance and consultancy for the management, internal audit types used and assessing of the outcome and quality of internal audit;
4. *reporting*, which refers to the reporting level of internal audit and reporting requirements, or to the internal audit committee or senior management level;
5. *responsibility*, contained in a section of the Internal Audit Charter, which emphasizes the responsibility of the head of internal audit department on:
 - *continuous training* of internal auditors to keep them at an appropriate level of knowledge, skills, experience;
 - *strategic and operational planning*;
 - *implementation of internal audit programs* approved by management;
 - *communicating the results of internal audit* to the audit committee.

Relying on these norms, internal audit may be conducted in the form of its two components, namely insurance and consulting, setting their goals in advance.

Although sometimes overlap their areas of action, there are well defined limits for each of the activities - insurance or consultancy, by identifying the types of services, authorization base and the final objectives.

Insurance is considered to be "an objective examination of evidences to provide an independent assessment on risk management and control or management processes."

In reality, this activity of internal auditors is reflected in missions with a wide range of coverage, having a clear endpoint. Here are found the audit of: control processes of budget execution, implementation of personnel policies, IT system, preliminary financial analysis, measuring the effectiveness of audit activities, etc.

Consultancy or counseling that involves internal audit "means those activities related to the nature and purpose of the organization, designed to add value and improve its management, risk management and control processes, without the internal auditor assuming managerial responsibility".

Conducting internal audits and consultancy work involves the determination of the form they may take, under the current legal framework.

Thus, one identifies *consultancy activities*, meant to specify the shortcomings in implementation processes at a normal pace and schedule parameters and identify the causes, consequences and solutions for eliminating them.

Internal audit can aim to *facilitate understanding* for the entity's staff that knowledge of a system, its operation, of normative provisions is the responsibility of these employees (managers) working with/in it.

Professional training is also an area of internal audit missions, which aims to provide theoretical and practical knowledge with regard to financial management, internal control, risk management, by organizing courses and seminars to employees of the entity.

At the same time, the internal audit activity as consultancy has several variants, namely:

- formalized consultancy missions, provided in the annual internal audit plan, in a separate section. It is based on systematic and methodical approaches, under formalized procedures with predetermined character;
- informal consultancy missions, achieved through participation in projects of fixed duration, in various committees, meetings with timely goals, being carried out by following their own procedures;
- consultancy missions for force majeure situations, exceptional events or crisis, which require the participation internal auditors in the established teams.

3. Conclusions

By considering the logical reasoning of research, we considered as particularly important the subject of internal audit - internal control relationship; after the research of the conceptual approaches of internal control, internal control patterns and by paying attention to consultancy and monitoring issues, we concluded that internal control is the main objective of internal audit, thus the audit work should consider determining the reliability of all financial and operational information, evaluating controls aimed at protecting company assets, assessing devices regarding the compliance of operating results with goals and objectives, in order to help management fulfill the entity's objectives.

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