

THE IMPORTANCE OF AUDIT AND INTERNAL CONTROL WITHIN AN ORGANIZATION

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Abstract: *The information provided by the audit and the internal managerial control offers to the management of the organization the possibility to consolidate its managerial decisions regarding the activity plan, the organization and coordination of the organization's structures, the exact determination of the responsibilities on structures and persons involved in the activities of the organization. The construction and proper functioning of this process, which is a long-lasting one, requires collective and individual efforts so that it can be adapted to the specificity and size of the organization as much as possible, but with due respect for applicable legal provisions and general principles of good practice. The Code of Internal Control of Public Entities has been revised and currently includes 16 Management Standards. Starting from these standards, the entity organizes its own internal management control system, adapted to its specificity and size, according to the particularities of the legal framework of organization and functioning, establishing the necessary measures for the implementation and development of the internal managerial control system, including updating of risk registers and process procedures. Finally, the result of this research is to identify the implementation strategy of the internal managerial control system with the support of internal audit so that it becomes effective and reduce risk-mitigation at an acceptable level and regularly monitor its effective functioning within the organization.*

Keywords: Internal audit, Internal managerial control, Risks, Standards, Procedures.

JEL Classification Codes: M14.

1. INTRODUCTION

The professionalism of the internal auditor is the art and the way to give value to the used instruments and techniques, such as rules, procedures, instructions, information systems, types of organization, etc., which all represent the control activities used by the manager of the institution or the manager of a job, recognized by the specialists as internal control. The internal auditor advises, assists, recommends, but does not decide, deciding this being the responsibility of management, its duty being to remain a mean to improve the control that any manager has on the activities within the organization.

Internal control is found in the structure of each activity and must be formalized through operational procedures and ensures the functioning of an internal control environment appropriate to them that promotes ethical values and is transparent (Dascălu et al., 2016). The existing system of internal control within organizations must be continuously developed and perfected to a level that allows the management to have better control over the organization. In order to achieve an effective control, internal audit has the task of recommending the design of simple, decentralized and flexible structures that do not make it more difficult to verify and comply with procedures.



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The internal audit should be concerned about the way in which the internal control system is organized, as is the object of its activity. The control activities carried out within the organizations, direct the organization towards achieving its objectives by observing the pre-established working procedures.

General management and internal audit are on the same side within an organization and only together they can achieve their own goals and provide balance, security to third-party business partners and transparency on the compliance and effectiveness of the organization's operation.

The control environment is part of institutional culture, influenced by leadership style, employees value system, people with professional competence and integrity, description of activities and procedures, organizational structure, task separation, IT, etc., and provides the framework in which various forms of internal control take place (Dănescu, 2007).

The internal control must take into account changes and anticipate them in order to achieve the predictive nature of control over the organization's evolution. The implementation of the managerial control system is a process of high responsibility and lasting, which can be achieved through the full involvement of the persons within the entity and who is and will be the responsibility of the general management. The internal control system has no other reason than to overlap with the organization's strategy of achieving the objectives / targets, which is why it is also called a management control system.

The process of European integration has determined, on the one hand, the need to develop the managerial control system, especially on the performance line of its outcome, and on the other hand it provided the standardized framework for its organization and implementation (Dumitrescu, 2012).

The development of the managerial control system is a complex process, which requires efforts and training of experienced staff from all the departments, but once implemented, it certainly ensures a high performance management and obtaining medium and long term profits. In implementing the internal managerial control system, it is advisable to perform some steps that give some coherence to the process and guarantee the achievement of positive results. Steps are found in internal managerial control standards and are the subject of complex processes, or the development of relevant documents.

The primary objective of this article is to analyze the degree of interest of general management and internal audit that are on the same side within the organization and only together can achieve their own objectives and provide balance, security to third-party business partners.

In carrying out the process of implementation of the managerial internal control system it is recommended to go through some stages, which give some coherence to the process and guarantee the achievement of positive results. Steps are found in internal managerial control standards and are the subject of complex processes, or the development of relevant documents (Dumitru & Burtescu, 2015).

2. SPECIALTY LYTERATURE

In 1950, I.I.A. Internal Audit Standards Different from External Audit have been issued while they have been used and since 1970 have become Internal Audit Standards. In 1941, J.B. Thurston, the first president of the International Institute of Internal Auditors, said with an amazing prognosis that the brightest perspective of internal audit would be managerial assistance. In 1991, Joseph Mossie, president of the UK Internal Audit Institute, resumed the same remark but in much more precise terms the clear fact that Internal Audit function has a vital role to play by helping the management take in the hands of internal control.

The use of the term audit in the current sense is relatively recent and is in place during the 1929 economic crisis in the United States when organizations affected by the economic recession had to pay important sums to external auditors who certified the accounts of all listed companies.

The role and need of internal auditors has been steadily increasing and has been universally accepted, which is why they felt the need to organize and standardize their practical activities. Thus, in 1941, the Institute of Internal Auditors was established in Orlando, Florida, which was internationally recognized. Subsequently, the United Kingdom joined, and in 1951 Sweden, Norway, Denmark and other states. At present, over 100 national institutes of internal auditors and members from over 120 countries have been affiliated with this institute as a result of obtaining the quality of a Internal Certified Auditor, awarded by Institute of Internal Auditors, based on professional exams.

The internal audit function was established in England and France in the early 1960s, being strongly marked by its origins in financial and accounting control. It was only after the 1980s and 1990s that the internal audit function began to take shape in the activity of the entities, and its evolution continues at present.

Since 1999, Romania has started a process of drafting the primary legislation, defining the concept of internal control, setting general objectives and specific objectives.

3. RESEARCH AND METHODS

I believe that following the results of the research method, internal audit should provide independent and objective advice services to help the entity's management at an average level to improve risk management, control and governance.

The purpose of the method is to establish the role of the internal auditor so that he can identify and evaluate his own risks for the efficient functioning of the organization (Fülöp & Szekely, 2017).

Using the observation method (direct by visiting organizations and discussing with those involved) by attending internal auditing sessions, we could identify certain features and aspects regarding the conduct of internal audit work and internal control (Tabără & Roman, 2007). Large organizations are characterized by the rigor of controlling (more effectively and more effectively done in the field of safety and security) generated by the holding of a large number of updated system and operational procedures, according to the legislation in force regulating the activities and objectives of organization structures.

4. RESEARCH OBJECTIVES

Research had the following objectives:

- 1) to identify the importance of internal auditing through internal control within organizations through protection in financial control, and there is currently a problem with understanding the internal control system that includes all internal control activities;
- 2) to identify the degree of importance that internal audit attaches to internal control through the achievement of objectives, establishing rules, procedures, computer systems, types organization, instructions, etc., which represents all the control activities used by the manager of the institution or the manager of a job, recognized by the specialists as internal control (Peters & Waterman, 1982).

5. METHODOLOGY OF RESEARCH

The group was made up of departments of an organization, which states the stage of implementation and development of the managerial internal control system within an organization in the previous year.

Based on the research, the following results:

- the number of compartments in the organization that should report the implementation of the management internal management system is 7 compartments;
- the number of compartments within the organization that reported the implementation of the management internal control system is 7 compartments.

The Monitoring Committee within the organization was constituted in all seven compartments in 100%.

The program for the development of the managerial internal control system within the organization has been developed and approved by the organization.

Overall objectives are set by all seven compartments. Procedural activities are inventoried by all 6 compartments. The procedures were developed and updated by 6 compartments (less 1 compartment). Performance indicators associated with specific objectives are set by 6 compartments (less than one compartment). Risks were identified by 6 compartments out of a total of 7 comparisons (less 1 compartments).

Table 1. The degree of implementation of managerial internal control standards at the compartment level

Standard number	Standard name of internal managerial control	Year 2017	Year 2018
1st Standard	Ethics and integrity	83.2%	86.2%
2nd Standard	Duties, functions, tasks	80.4%	80.7%
3rd Standard	Competence, performance	83.4%	93.3%
4th Standard	The organizational structure	85.6%	85.8%
5th Standard	Objectives	80.4%	81.0%
6th Standard	Planning	85.2%	84.0%
7th Standard	Performance monitoring	78.9%	78.0%
8th Standard	Risk management	70.8%	68.9%
9th Standard	Procedures	72.2%	72.0%
10th Standard	Supervision	79.4%	80.5%
11th Standard	Continuity of activity	78.6%	88.4%
12th Standard	Information and communication	85.8%	85.6%
13th Standard	Managing documents	80.9%	81.0%
14th Standard	Accounting and financial reporting	85.9%	85.8%
15th Standard	Evaluation of the management internal control system	83.0%	82.4%
16th Standard	Internal Audit	59.0%	73.4%

Table 2. The state of implementation of managerial internal control standards at the compartment level in November 2018 as compared to 2017 is presented in the following table.

Principal Credit Authorizing Officer - own structure -		Year 2017				Year 2018			
		Number of internal managerial control standards			Implementation rate no. standards (%)	Number of internal managerial control standards			Implementation rate no. standards (%)
		I	P	N		I	P	N	
1.	Human Resources Compartment	16	0	0	100.0	16	0	0	100.0
2.	Purchasing department	16	0	0	100.0	16	0	0	100.0
3.	Public relations department	16	0	0	100.0	16	0	0	100.0
4.	Legal department	16	0	0	100.0	16	0	0	100.0
5.	Economic compartment	15	1	0	80.0	15	1	0	80.8
6.	Adoption section	16	0	0	100.0	16	0	0	100.0
7.	Case management compartment	15	0	1	60.8	15	1	0	80.8
Average degree of implementation of internal managerial control standards					91.5 %				94.5 %

Data analysis: Following the analysis of the degree of implementation of each managerial internal control standard, at the level of the compartments, for the period 2017 ÷ 2018, the following can be distinguished:

1) managerial internal control standards have average implementation rates that are different, depending on the compartment;

2) the average level of implementation of the implemented control standards at the level of the compartments increased to 94.5% in 2018 compared to 2017 then the implementation rate was 91.5%, so the internal managerial control system registered a evolution.

6. CONCLUSIONS

The average level of managerial-implemented internal control standards increased in 2018 compared to 2017 to 94.5% from 91.5%. At the level of the compartments, 13 of the 16 managerial internal control standards were registered an evolution in implementation (I) and 3 standards registered a slight regression, respectively S6 - Planning, S8 - Risk Management and S12 - Information and Communication.

The degree of implementation of the managerial internal control standards in 2018 compared to the previous year is as follows:

- 10 control standards have been maintained at the same level of implementation as compared to 2017;
- 2 control standards have had positive developments, increasing the degree of implementation;
- 4 control standards have had negative developments;

Proposals to improve the overall framework of the managerial internal control system:

- ✓ the causes that have led to the failure to develop the programs for the development of the managerial internal control system by compartments must be identified;

- ✓ measures should be included in the Managerial Internal Control System development program at the level of the main credit officers to improve the managerial internal control systems at the compartment level;
- ✓ it will provide internal audit advice for developing Managerial Internal Control System Development Programs;
- ✓ identify the causes for which the compartment does not have a performance indicator system and monitor these, and provide internal audit advice to determine performance indicators;
- ✓ identify the causes for which the compartment that did not develop the Risk Register at the organization level;
- ✓ internal audit advice will be provided for the compilation of risk registers;
- ✓ identifying the causes that led to a negative evolution of the level of implementation of the managerial internal control standards for 1 standard and the establishment of a set of proposals, as appropriate, by the auditors of the organization.

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