

CONSIDERATIONS CONCERNING THE SPHERE OF THE ACTIVITIES OF INTERNAL AUDITING

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Abstract: The internal audit has known a continuous evolution, the sphere of the specific activities being gradually extended from the financial and accounting area to the entity's operational area. This aspect is significantly influenced, among others, by the subordination means of the department of internal audit within the entity, as well as by the range of services which could be offered to the decisional factors. In this sense, the present material debates the connection between the position of the function within the entity and the exigencies which are imposed as far as the assessment of the objectives for the internal auditors is concerned. In the same time, we will talk about the range of services which have been offered by the internal auditors both from the perspective of the needs for their beneficiaries, as well as of the independence which characterises this kind of services. In the same time, we have approached the range of the specific services for the missions of this nature. The approach concerning the positioning of the internal audit aims, on one side, at its role as a main instrument of the entity as far as the monitoring of the risks is concerned and the assurance of the quality for the internal control devices which have been instituted by the entity, and on the other side, the need to assure the adequate independence for the accomplishment of such desiderata. As far as the services which have been offered by the auditors are concerned, within this material, they are subjected to the analysis from the perspective of their beneficiaries, as well as under the aspect of the compatibility between the assurance services and the consultancy services.

The activity of internal auditing knew, a long time, a continuous evolution both under the aspect of the followed objectives, and of the position in the organizations, aspect which, otherwise, are in a pronounced interdependence relation. For the emphasis of the actual role accomplished by the internal auditors, we consider necessary and, at the same time, useful, a succinct presentation of these elements, correspondingly to the registered historical evolution.

At it is known, the creation of IIA represented a significant moment in the development of internal auditing. Besides, in the period right after creation of this professional organism, the perception of the public on this activity was of extension of the work realized by the external auditors, considering that the internal auditors have a relatively modest role in the life of the organization, having only "a limited responsibility in the total managerial spectrum".

This mentality persisted a long period of time and we can consider that it was maintained, among others, by the position of the department of internal auditing in the organization structure of the entities, which, in most cases, is subordinated to the chief accountant. At the same time, both in theoretical plan and at the level of practical activity, it is manifested, strikingly enough, the confusion between the internal and the external auditing, on the background of the dominant preoccupations of the entities that had in mind, as a priority, the bookkeeping verification and certifying.

Even if this subordination limited the activity of the internal auditor at the problems of bookkeeping nature, the fact that he is an employee of the unity constituted the premise for the interest increase for all types operations developed by the unity, in the sense of the increase of his preoccupation to make them more profitable.

On the other hand, at the level of the economical organizations it was noticed an emphasis of the distance between their management and the proper developed activities, aspect that led to necessity of developing some verifications to assure the more efficient administration of the businesses. In this context, the internal auditing has the capacity to complete and perfect the forms of control instituted through an evolution made independently.

As such, to answer to new practical necessities, the regulation factors were preoccupied for the continuous extension of the activity field of the internal auditing, from the financial and bookkeeping problem to the one concerning the operational sphere of the entity. In this sense, we have in mind, as a first significant stage, the revision made in the year 1957, by the IIA, of the Declaration concerning the responsibilities of the internal auditors, Which realize the considerable extension of the activities made by internal auditors for the management of the entity, including in their range a series of new services, from which there are mentioned:

- the verification and evaluation of the solidity, the adequate character, and also the application of the bookkeeping, financial and operational examinations;
- the specification of the degree of accordance with the established politics, plans and procedures;
- the establishment of the degree in which one answers of the losses of any kind of the actives of the company, as the way in which are protected against losses;
- the finding of the certainty of bookkeeping data and of other data within the organization;
- the evaluation of the quality of accomplishing the given responsibilities.

The process of extension of the sphere of the activities made by the internal auditors continues according to the demands imposed by reality, so that the mentioned document, which is considered one of reference in the field, is submitted to successive revisions in the years 1976, 1981 and 1990, proving, once again, the rapid evolution of the profession of internal auditing.

The regulations adopted by the profile organisms, were accompanied, in parallel, by debates and polemics concerning the subordination of the function of internal auditing and, at the same time, in what concerns the rigorous delimitation of the role accomplished by this one in the complex process of administration of the organizations.

Thus, in a first stage, the department of internal auditing was subordinated to the Financial Direction of the entity, which was considered an important step forward, proving its assurance through the fact that it is still found in the practice of many organizations. The subordination, which, also apparently, creates the impression of the limitation of the exercise of internal auditing, assured and adequate background for its manifestations in a universal manner at the level of the entity. It is, as a matter of fact, the main reason of the *longevity* of such a structure of the organization.

Afterwards, many organizations considered more appropriate the subordination of the function of internal auditing to the General Direction, justifying this fact through the universal character of its preoccupations, and a series of studies made on this theme underlined the fact that, in some economical environments, as it is the French one, this tendency became a significant one.

The most recent evolutions that characterized especially the Anglo-Saxon and the American environments, emphasize, though, the fact that both the proper exercise of the internal auditing in the operational field, and the offering of a more efficient support to the management of the organization, can be realized through its subordination to the auditing committee. Besides, the supporters of such an approach argue their opinion through the fact that this solution also represents an adequate modality in what concerns the independence of the function.

From this point of view, we place ourselves by the side of the specialists who state this last mentioned variant, at least because of the considerations that are followingly mentioned.

- Generally, in the situation in which within an administration council, it is made such an auditing committee, it is supposed, from the beginning, a specialization in a distinct field, which signifies a plus of competence and, implicitly, a better understanding of the administrated problem.

- The auditing committees are composed by independent persons to which is forbidden any relation with the entity, outside that which derives from this quality, which supposes that the activity developed will be characterized by a maximum objectivity. This fact is absolutely necessary, especially in what concerns the correct interpretation of the recommendations formulated by the internal auditors, and, afterwards, for the following of the making into practice of these ones.

- The possibility of the use of a common language that constitutes a considerable advantage in view of the identification and the evaluation of risks at which the organization is exposed, because it is known that, from this point of view, the management has specific solving modalities, which sometimes can be more difficult to be accessed by the internal auditors, who, from this point of view, are at the beginning of the way, in the sense that they appeal, from little time, to such managerial techniques.

- In the IIA Recommendation made by the Congress of USA in April 2002, it is stipulated, for all companies in the stock market, beside the obligativity of the existence of the internal auditing function, also the fact that this comes to the auditing committee.

In the same order of ideas, we mention that the report referring to the auditing committee is considered by some specialists as a practical exercise frequently met in the most progressive corporations, which propose to realize adequate structures and processes of verification, as also a development of the function of internal auditing. In this sense, Mautz & Neumann appreciate that *“for the majority, the auditing committee is considered a bridge between the administration council and the auditors... To accomplish the responsibilities to the stockholders and the big public, the members of the auditing committee should become more interested and better informed in the auditing problems. The management also became conscious of the necessity to protect itself through an adequate attention offered to the internal verifications and to the effective audits. As a consequence, it became more receptive to the auditors’ suggestions and to the demands of information of the auditing committees.”*

Underlining, also, the importance of the auditing committees and the role played by these in the establishing of an adequate relation between the administration councils and the internal auditors, Brink & Witt, 1982, notice that *“in most situations, the group of internal auditing moved to very high levels in all operational areas and auto-imposed as a valuable and respected part at the peak of the organization, in a more and more high measure the internal auditor serves to the administration council – usually through its auditing committee.”*

At present, according to the approaches elaborated by IIA, the internal auditing represents an independent and objective activity, which gives to an organization an assurance in what concerns the verification degree on the operations, it guides it to improve its operations and contributes to the addition of a plus of value. At the same time, it contributes actively to the achievement of the established objectives, to the administration of the risks and the due verifications, to the processes of governing the enterprise, and also to the increase of their efficiency through the formulation of proposals and pertinent recommendations.

As it may be noticed, the internal auditing became the main instrument of the entity in what concerns the monitoring of the risks and the assurance of the quality of the established control devices, being considered by many specialists *a player of first line* in this direction.

In what concerns the risks, it may be retained that the main approaches made by the auditors delimitate on the following directions of action:

- the evaluation of the risks existent in the areas submitted to the auditing and the report of the obtained results to the management or the auditing committee or to both structures;
- the development of a plan that assure a systemic evaluation of all risks at which the organization submits;
- the taking over the attributions due to the activities of risk management, in the situations in which the management comes across difficulties in what concerns the solving of such problems;
- the facilitation of the risks evaluation through auto-evaluation techniques;
- the evaluation of the risks associated to various projects of development of the entity, and also the stopping of their putting into practice when they are not verified at a predetermined acceptable level;
- assistance accorded to the management for the purpose of the implementation of a model of risk at the level of the organization.

On their turn, the verifications established at the level of the organization make the object of the internal auditors' preoccupations within the following activities:

- the making of conformity tests and the report of the observations to the management and only in particular situations to the auditing committee;
- assistance accorded to the management in the project of some extensive evaluations, inclusively the making of verification tests;
- the facilitation of the understanding and of the development of the verifications in the functional areas of the entity, through the use of the techniques of auto-evaluation of the verification;
- the identification of the significant control drawbacks, inclusively to those noticed at the peak of the organization and the communication of these aspects to the auditing committee;
- the implementation of the computerized testing techniques, as are those of continuous monitoring of the verifications and their efficiency;
- assistance accorded to the management in the elaboration of the report concerning the efficiency of internal verifications.

In the conditions of all these aspects, and also of the changes of opinions concerning the subordination of the internal auditing department in the entity, it gets a significant importance the ability of the internal auditors, and mainly of the department

leader, to answer both to the demands received from the management's side, and to those from the auditing committee. In this sense, the specialty literature underlines the possibility of the appearance of tensions determined by the fact that the internal auditing must *serve for two masters*, which have a perception kind of different, imposed by each one's specific objectives, referring to the way in which the internal auditing function adds value to the organization.

Thus, from the point of view of the auditing committee, the value of the organization can be increased through the improvement of the quality of all information produced in it. At its turn, the management of different hierarchic structures considers that the mentioned desideratum can be achieved in the way in which the internal auditing becomes a changing factor at operational level. For this purpose, it is mentioned that the members of the auditing committee are less interested by the efficiency of the operations realized at the level of the entity, concentrating more on the opinions formulated by auditors in what concerns the accordance of the established control devices, which confirm that the data provided by the managers are certain, that the laws and the regulations were respected and, at the same time, that the actives are protected. On the other hand, the officials of the various hierarchic levels follow, mainly, that the recommendations received from the auditors offer the opportunities concerning the developed operations, which aim, mainly, the reduction of costs and, implicitly, to favour the increase of the efficiency. They are preoccupied by the findings referring to the established verifications in the way in which they affect their own evaluation to the hierarchic chiefs. As such, their priority is the efficient and effective development of the operation that it co-ordinates.

The information necessities of the two pillars of the governing of the entity which, otherwise, constitute demands addressed to the internal auditors (and constitute as objectives), present themselves, synthesized, in this way:

The management of the entity:

- the offering of opportunities concerning the reduction of costs due to the operations developed at different hierarchic levels, as the ones referring to the realized products;
- the independent evaluation of the implemented control devices and assistance for the elaboration of the due reports;
- the analysis of all categories of risks with which the entity confronts;
- support for the realization of a rigorous auto-evaluation of the risks and the verifications.

The auditing committee:

- the protection of the actives;
- the accordance with the laws and regulations;
- the certainty of the obtained information in the entity;
- the independent evaluation of the bookkeeping practices, and also the analysis of the risk concerning the internal bookkeeping control and the financial report;
- the assurance concerning the verifications, inclusively the independent evaluation made at the peak of the entity.

At the same time, we mention that, in reality, the beneficiaries of the activities realized by the internal auditors are more numerous. In this sense we have in mind the

external auditors, the providers and the entity's clients and even the factors of regulation of different activities, which, also, have specific information necessities.

The external auditors consider that an internal auditing, made rigorously and which is characterized by a high quality constitutes a main factor of substantial reduction of the extent of the own approach, made in view of the elaboration of the opinion concerning the financial situations of the entity.

On their turn, the clients and the providers of the entity, in the analysis of the current contracts in development, and also of the angles concerning the common activities, they accord special attention to the discoveries of the internal auditors of the partner unit in what concerns the certainty and the security of the information offered by the system that constitutes the interface between them and the business partner.

Connected to the regulation factors, it is known the fact that there is a series of fields which are characterized through a significant regulation, made by the profile organisms which document, among others, through the appellation at the results of the internal auditors' activity.

In other order of ideas, we mention that in the specialty literature there are also opinions according to which there isn't agreed the making of activities that internal auditors make. In this sense, there is invoked their compatibility with the main services that are accorded to them and that are those of offering of their guaranty under the form of assurance. Thus, as it is known, the internal auditors make consultancy services for the management, which can put in doubt their quality of independent analysts of the efficiency of the governing processes of the entity.

In such situations we consider that the implication of the internal auditors in the consultancy services is one good in the way in which they are not effectively put into gear in the practice of the formulated recommendations. Besides, because of the fact that the practice of the subordination of the internal auditing to the auditing committee is extending, being imposed, as it could be observed, even by regulations issued in this sense, there are created the premises through which these specialists are maintained at a *distance* from the beneficiaries of the consultancy services and thus are diminished the fears concerning the independence that must characterize them.

In the same context, we also mention the fact that there were formulated similar opinions also in what concerns the activity of monitoring, sustaining that this represents a component of the verification processes established at the level of the organization and, in consequence, it can raise questions concerning the role of the internal auditing, which is met both in the role of part of the verification systems, and as assurance concerning their efficiency.

In this situation we consider that there are not justified the fears expressed because of the fact that the monitoring made by the internal auditors is different from the one realized by managers through its independent character and, in consequence, it offers assurance concerning the audited processes.

Also, in the general context of the governing of the organization, starting from the premise that are more and more numerous the parts implied in this process, which come, mainly, from outside the enterprise, there are specialists that consider that the providing of the services of internal auditing by external partners (outsourcing) brings a plus of independence connected to the auditing process and thus it contributes better to the improvement of the ensemble of the governing process.

Even if the recent financial scandals affected significantly the perception of the public on all that signifies independence connected to the auditing process, generally,

we consider that there are enough arguments to subscribe the opinion of finding the best solutions through which can be realized this desideratum. In this sense, it cannot be contested the fact that the internal auditors, on the contrary to those external, know in detail the audited entity, with all its specific problems and activities.

We consider that the aspects exposed in the present material can constitute a modest contribution to the debate of the problems of theoretical and practical nature problems from the sphere of the internal auditing at European and international level and, in the way in which it is taken into consideration the rich experience accumulated at this level, they can contribute to the perfection of activities of this nature in our country.

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