

FINDING AND REPORTING IRREGULARITIES IN INTERNAL AUDIT

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Abstract:

The intervention on the spot phase consists in collecting documents, reviewing and evaluating the activity and contains the following procedures: Collecting evidence, Finding and reporting irregularities; Reviewing working documents; Closing session.

When auditors find frauds, errors that have a significant impact, breach of legal rules or approved procedures, the top management of the entity must be informed in a very short period. These findings are recorded in the "Form for finding and reporting irregularities (FFRI) which contains: the deviation noted; the normative act or violated procedures; recommendations for further verifications; appendices that prove the accusations.

Key words: *internal audit, audit procedures, collecting evidence*

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The forms for internal audit findings are used for presenting the auditor's fundamental findings and they are⁹⁰:

- a. Form of identifying and analyzing the problem - FIAP, is drawn up for each malfunction and/ or irregularity found. Within it are presented: the problem (area), findings, causes, consequences and recommendations of internal auditors to resolve the noted deficiencies. FIAP is signed by the internal auditors and by supervisors and is notified to the audited entity/ structure.

Auditors must report the significant findings noted during the audit. In reporting the findings, the information must be competent and relevant to provide convincing audit evidences⁹¹.

Based on the findings made and supported by documentary evidence, internal auditors formulate their conclusions. The validity of the conclusions depends on the quality of the evidence supporting the findings as well as their logic formulation and argumentation.

⁹⁰ Ghiță, M., Pereș, I., Pereș, C., Bunget, O., Zaharică F., *Guvernanța Corporativă și Auditul Intern*, Editura Mirton, Timișoara, 2009

⁹¹ Ghiță, M., Pereș, I., Popescu, M., Bunget, O., Croitoru, I., *Audit Public Intern*, Editura Mirton, 2008

Also, internal auditors make recommendations for the necessary actions to correct problems and improve operations, for cases of non-compliance of the regulatory framework or for the possible weaknesses of the internal control activities.

Recommendations should not present duties or not respected provisions of the normative framework, but concrete modalities to deal with them.

Recommendations should be constructive, refer directly to solving the cause of the identified problem, specific and action oriented, addressed to the parties who have the authority to act and they should be achievable.

- b. Form of finding and reporting irregularities - FFRI, which is drawn up when internal auditors find deviations from procedural and methodological rules, respectively from the legal provisions applicable to the audited entity/ structure and that caused or might cause damages to public funds.

The irregularities found are transmitted no later than the next day to the head of the audit department, who shall inform, within three days the manager of the audited entity and the control structure empowered to continue the verifications.

The procedure, in this case, requires the involvement of auditors and supervisors through taking the following steps:

- the auditor: reports to the head of the audit department, no later than the next day the irregularities found, that can be deviations from procedural and methodological rules, namely from the legal provisions applicable to the audited entity/ structure/ program/ operation and that may cause damage to funds by failing to submit to FFRI;
- the supervisor: informs within three days the manager of the audited entity and the control structure a \empowered to continue the verifications.

From⁹² the analysis of the audit evidences that support the findings of the internal auditors, in the performed missions was noted that many findings are not presented as a result of tests and interviews performed in intervention stages, on site, but based on the internal auditors' feeling and expertise, to which the auditors subsequently attach the corresponding proof.

Of course, all this is an experience that will constantly be improved to achieve the internal audit's objectives to add value to risk management and organizing the audited entity.

At X University from Timisoara was performed an audit mission regarding the Legal activity.

The objectives of the internal audit mission regarding the legal activity, determined through the audit plan were the following:

1. Organizing, planning and reporting the legal activity.
2. Management system of files and causes the entity is a party (registration, placement, formation and follow up).
3. Entity representation in courts.
4. Methods of analysis of the causes that determined the rejection in court of the actions brought.
5. Implementation of court decisions by the enforcement body.
6. Opening of bankruptcy proceedings in order to recover debts.
7. Information system

⁹² Ghiță, M., Sprânceană, M., *Auditul Intern*, Editura Tribuna Economică, București, 2009

At objective no. 3 Entity representation in courts, the auditor prepared Checklist no. 3

Objective 1 ENTITY REPRESENTATION IN COURTS

ENTITY REPRESENTATION IN COURTS

No.	AUDIT ACTIVITY	YES	NO	OBS.
1.5.	<i>Formulating and substantiating participation in court</i>	X		
	a) existence of court files;	X		TEST no. 3.5 Worksheet no. 3.5 Checklist no. 3.5 Relations note no. 3.5 FIAP 3.5.a FIAP 3.5.b FIAP 3.5.c FFRI 3.5
	b) existence of summons issued by the court;	X		
	c) compliance with the deadlines for presentation at court;	X		
	d) existence in the file of the representation delegation;	X		
	e) knowing court cases;	X		
	f) presentation at court in due time;		X	
	g) sustaining interests at each term;	X		
	h) developing and submitting written conclusions;	X		
	i) full detail of the causes in the conclusions reached;	X		
	j) formulating the action in the limitation period;		X	
	k) persistence in the court's coverage of all claims made in the case;	X		
	l) formulating conclusions in due time;	X		
	m) covering in the conclusions all the charges;		X	
	n) obtaining final decisions;	X		
	o) capitalizing the final decision.	X		

FORM OF IDENTIFYING AND ANALYZING THE PROBLEM NO 3.5.b.

Audit mission: *Legal activity*

Audited period: 01.01.-31.12.2012

Problem: Formulating legal proceedings outside the statute of limitations

Findings

From analyzing the files regarding the causes that have determined the cancellation in courts of the actions made on resolving administrative appeals resulted that in some cases they were rejected, on the ground that they were not made within the limitation period. For example, in file no. 365/ 2012 the court rejected the appeal on the ground that since the date of the deed and until the formulation of the action past three years. In this case, in 2009 were capitalized confiscated assets by SC A&B SRL worth 234.500 lei with payment at 30 days, and the company did not pay the counter value of the assets. After three years, a court action was made to recover the amount, which the court obviously rejected on the ground of prescription. The limitation periods were also lost in the case of files no. 397/ 2012, 457/ 2012, 645/ 2012 and 695/ 2012.

Causes

- Lack of work procedures.
- Lack of a coherent system of internal control.
- In the accounting department there was no evidence of debts, the debt in question was identified in 2012 when the legal office was asked to recover the amount in court.

Consequence

- The entity recorded an irrecoverable loss of 234,500 lei.
- Failure to recover the amounts due.
- Lack of clear responsibilities in job descriptions.

Recommendations

- Informing the internal auditors regarding the measures established for recovering the activity and the implementation manner.
- Establishing a system whereby all debts to be tracked for each client at least monthly, this being the responsibility of a person. A file should be prepared monthly for all receivables older than 30 days from the due date and submitted to the Legal service so that it can proceed in court.
- Developing and establishing written and formalized procedures and establishing their officers.
- Corroborating job descriptions with procedures.
- Systematic testing the personnel to verify the knowledge and understanding of the procedure.
- Developing a training system for personnel by the head of the department.
- Analyzing the existing debts that are still not prescribed.

Note: For the irregularity found in file no. 695/ 2012 the FFRI no. 3.5 was also prepared.

FORM OF FINDING AND REPORTING IRREGULARITIES NO 3.5

To: The head of the public internal audit structure

As a result to the public internal audit mission regarding the activity of the Legal Service, the following were noted:

• FINDINGS

The Legal Service did not fulfill the obligations established by, in pursuing the acquisition contracts. Thus, in file no. 695/ 2012 the Public Acquisition Service compiled a list of companies that based on the signed contracts qualify to receive an advance for the acquisitions that will be performed. Company X, which received an advance based on contract no. 1456/ 2012, did not made the acquisitions stipulated in the contract on time and in these conditions, the Public Acquisitions Service prepares on 21.03.2012 an address to the Legal Service so that it can proceed in court to recover the debt. The address and documentation is received by the head of the Legal Service, but it was not registered, nor allocated to a legal adviser.

As a result of the request of the executive director, on 15.07.2012 a court action is prepared, but this action was rejected on the ground that the right to reclaim the debt prescribed.

- **VIOLATED NORMATIVE ACTS**

Internal regulations and job description provide the responsibility of the head of the Legal Service to pursue the actions within the limitation period.

- **RECOMMENDATIONS**

- Reviewing during last three all cases received for settlement within the Legal Service and taking the measures to proceed in court, where is imposed by the legal and regulatory framework, or other legal measures available to the company's management.
- Establishing and assigning responsibility to someone in the Legal Service to track all cases that are received within it.
- Carrying out an inspection by the internal control structure on establishing the causes of non-acting in court and the responsible persons, with specific recommendations for internal control regarding debt recovery and/ or administrative sanction of those responsible. Inspection results will be also communicated to the Internal audit service for information and analysis.

- **APPENDIXES**

- Xerox copies of the address and the documentation received by the head of the Legal Service and of the action brought and rejected by the court;
- Xerox copy of the address submitted by the Public Acquisition Service on 21.03.2012 to the Legal Service.

Conclusions

The internal audit mission regarding the legal activity within the public entity was carried out according to Law no. 672/ 2002 on public internal audit, as amended and supplemented, the specific rules approved by management and the internal audit plan for 2012.

<i>No.</i>	<i>Objectives</i>	<i>Assessment</i>		
		<i>Functional</i>	<i>To be improved</i>	<i>Critical</i>
1.	<i>Organizing, planning and reporting the legal activity</i>	X		
2.	<i>Management system of files and causes the entity is a party (registration, placement, formation and follow up)</i>			X
3.	<i>Entity representation in courts</i>		X	
4.	<i>Methods of analysis of the causes that determined the rejection in court of the actions brought</i>		X	
5.	<i>Implementation of court decisions by the enforcement body</i>		X	
6.	<i>Opening of bankruptcy proceedings in order to recover debts</i>	X		
7.	<i>Information system</i>	X		

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