

# PLANNING THE INTERNAL AUDIT ACTIVITY

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## **Abstract:**

*Carrying out the planning activity involves the determination of the major areas of audit. An incorrect or incomplete planning leads to the loss of risk-bearing activities. Practice requires careful selection of activities from the auditable areas with increased risk, based on risk analysis associated to those activities.*

*The typology of risks and the risk assessment criteria must be efficient and must ensure the preservation of a general view of the assembly.*

*The important thing is to plan our audits for major risks, and the minor ones in a lesser extent or not at all.*

**Keywords:** *planning, audit, risks, activities*

**JEL classification:** M42

## **Developing an internal audit plan**

The internal audit plan is drawn up annually by the internal audit department.

The selection of the internal audit missions is made based on the following of different substantiation<sup>97</sup>:

- ✓ assessing the risk associated to structures, activities, programs/ projects or operations;
- ✓ signal criteria/ suggestions made by the manager of the public entity, namely: deficiencies previously identified in audit reports, deficiencies specified in the minutes of inspections, deficiencies specified in Court of Auditors reports, other information and indications regarding malfunctions or misconducts, assessments of specialists, experts regarding the structure and dynamic of internal or system risks, analyzing long term trends on certain aspects of the operation, assessing the impact of changes that occurred in the environment were the audited system operates;
- ✓ themes deducted from the annual plan of UCAAPI. Managers of public entities are required to take all organizational measures for that the topics ordered by UCAAPI to be included in the annual internal public audit plan of the public entity, conducted in good conditions and reported within the time set;
- ✓ number of subordinated public entities;
- ✓ respecting periodicity in auditing, at least once every 3 years;
- ✓ audit types suitable to each subordinated entity;
- ✓ respecting Court of Auditors' recommendations.

The annual internal audit project is drafted until November 30 of the year preceding the year for which it is developed.

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<sup>97</sup> Ghiță, M, Peș, I, Popescu, M, Bunget, O, Croitoru, I, *Audit Public Intern*, Editura Mirton, 2008

The manager of the public entity approves the annual internal audit plan until December 20 of the previous year.

The annual internal audit plan is an official document. It is kept in the archives of the public entity along with the justification report in accordance with the provisions of the National Archives Law.

The annual internal audit project is accompanied by a justification report regarding the manner in which the audit missions comprised in the plan are selected.

The justification report should include for each public internal audit mission, the results of the analysis of associated risks, signal criteria and other fundamental elements that were considered in selecting the mission.

### **Structure of the public internal audit plan**

The public internal audit plan has the following structure<sup>98</sup>:

- ✓ purpose of auditing activities;
- ✓ objectives of the audit action;
- ✓ identification/ description of operations subject to public internal audit;
- ✓ duration of the audit ;
- ✓ period subject to audit;
- ✓ number of own auditors engaged in the audit action;
- ✓ precision of elements that involves the use of specialized knowledge, as well as the number of specialists that will conclude external contracts and expertise/ advice services;
- ✓ number of auditors to be drawn in public internal audit activities within decentralized structure.

Planning the internal audit activity is carried out on three levels<sup>99</sup>:

1. **long term strategic planning** considers the evaluation activity of the internal audit function of subordinated structures that have organized audit departments, once every 5 years, according to the internal audit normative framework;
2. **medium term strategic planning** considers the fact that, by law, all auditable activities must be audited at least once every 3 years, according to the importance of the activity within the entity, by the danger of producing some events and even damages, as well as the emergence and importance degree of risk that may be included in the audit;
3. **annual planning** includes the missions that will be achieved during next year given the available time in the plan and annually allocated resources. Each mission will include the following objective: identification of adjacent activities, worked hours, personnel and scheduling activities and departments of the public entity subject to audit.

Carrying out the planning activity involves the determination of the major area of audit. An incorrect or incomplete planning leads to the loss of some risk bearing activities. Practice involves requires careful selection of high risk activities from auditable areas based on the analysis of risks associated to these activities.

Risk typology and risk assessment criteria must be effective and ensure the preservation of a general view of the assembly. It is important to plan audits for major risks, and for the minor ones to a lesser extent or not at all.

<sup>98</sup> Ghiță, M., Pereș, I., Pereș, C., Bunget, O., Zaharică F., *Guvernanța Corporativă și Auditul Intern*, Editura Mirton, Timișoara, 2009

<sup>99</sup> Ghiță, M., Pereș, I., Popescu, M., Bunget, O., Croitoru, I., *Audit Public Intern*, Editura Mirton, 2008

If the volume of auditable activities for a year is very large, we look to see if how many of them we can keep in plan for audit in that year, considering also the information we need and how we can obtain them. In this case, it is imposed that we make a new list with auditable activities based on available information and the best indicators on activity fields. In planning the audit activities for next year we should prioritize the activities with high added value, whose results will be relevant for the audited, because this creates a favorable impact for internal auditors.

Annual internal audit plans must be adjusted during the year whenever the entity's risks change and there also must be a reserve for special or unforeseen events (medical leaves of the internal auditor, for example, on average 5 days/ year) and time for providing management consultancy.

A good internal audit plan is the plan that was tested in critical situations, when there is a crisis, because in normal situations everything goes ok.

For example, we find ourselves in the last day of developing and approving the plan and the project for the internal audit plan is not ready, and the head of the internal audit structure or the person that prepares it are not present, the obvious question is - Is there a procedure for such situations, or we need to talk to people and see what happens? Obviously, a procedure will be developed for this particular situation. In the planning activity everything we forget cannot be recuperated and left for a later period, within the three years set by law.

Planning<sup>100</sup> the internal audit activity also considers the days for professional training regarding the audit, established by law, and also the paid leave days.

Afterwards, besides the mandatory objectives, is established the auditor's budget time and also the financial budget for the planned activities.

An audit plan is well appreciated when 70% of the budget time is allocated for internal audit activities.

The budget preparation method is that for each objective to calculate what we need and then summing with the related services in order to establish our value. Reporting must be made considering the set purposes, used methods and the expected results.

According to IIA standards (2000, 2010) the head of internal audit should conduct a risk based planning to set the priorities in accordance with the objectives of the organization.

The program of internal audit missions should in turn be based on a risk assessment carried out at least once a year and it should consider the general management's point of view.

In situations where we have also have proposals for achieving a counseling mission, the head of the internal audit structure, before accepting, should consider to what extent it can bring added value and contributes to the improvement of risk management in the functioning of the organization.

Counseling missions that were accepted must be integrated into the annual internal audit plan, which will then be transmitted to the general.

Updating the internal audit plan is made based on<sup>101</sup>:

1. legislative and organizational changes, which change the significance degree of auditing certain operations, activities or actions of the system;
2. requests from UCAAPI/ public entity immediate hierarchical superior to introduce/ replace/ remove some missions from the internal audit plan.

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<sup>100</sup> Ghiță, M., Pereș, I., Pereș, C., Bunget, O., Zaharică F., *Governanța Corporativă și Auditul Intern*, Editura Mirton, Timișoara, 2009

<sup>101</sup> Ghiță, M., Pereș, I., Popescu, M., Bunget, O., Croitoru, I., *Audit Public Intern*, Editura Mirton, 2008

Updating the internal audit plan is achieved by completing a report amending the public internal audit plan, approved by the head of the public entity.

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 APPROVED  
 MINISTRY OF EDUCATION, RESEARCH AND INNOVATION  
 AUDIT DEPARTMENT  
 Endorsed  
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Crt . No.	Audit field/ Purpose of the audit action	Objectives of the audit action	Identification / description of activity/ operation subject to audit	Audited structure	Dura- tion of the audit action	Period subject to audit	Num- ber of own audi- tors	Number of auditors that will be attra- cted in audit- ing actions
0	1	2	3	4	5	6	7	8
1.	<b>Assessment of the information system</b>	1. Organization and operation of the IT department 2. Implementation of the IT system 3. IT security	- organization and functioning regulation; - organization and operation of the department; - information system's security	Communica- tions and Information Center	92	01.01. 2012 - 31.12. 2012	2	
2.	<b>The decision making system</b>	1. Organizational structure 2. Planning and coordinating the decision making systems	- organization and functioning regulation; - existence of written procedures; - approval of written procedures; - updating procedures	Rectorship, Economic and Administra- tive General Directorate, Faculties' Secretaries	100	01.01.2012 - 31.12.2012	2	
3.	<b>Auditing the work carried out within the University Publishing House</b>	1. Organizing the publishing house and the multiplication workshop 2. Recording revenues 3. Recording expenditures	- analysis of revenue and expenditure budget and compliance with the annual budgetary provisions; - evidence and inventory of fixed assets, inventory items, materials and other supplies;	University Publishing House	40	01.01.2012 - 31.12.2012	2	

			- analysis of revenues and expenditures					
4.	<b>Evaluation of the process and the implementation stage of management control systems</b>	1. Organizing the institution's management control 2. The operation of management control systems in the institution	- compliance with the Charter and regulations; - compliance with the objectives set in the strategic and operational plans.	Rectorship, Faculties, Economic and Administrative General Directorate	104	01.01.2012 - 31.12.2012	2	
<b>Total time fund available 2011</b>					<b>336</b>			

### Conclusions

We consider that any planning we do we should not forget the IT and public acquisition departments that are, generally, risk bearing.

From practice results that it is necessary to decide whether we integrate the IT and acquisition activities in all the audited areas or we audit them separately.

Practitioners recommend auditors to consult with organization members because they have a global vision regarding activities and may refer risks.

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