

INTERNAL AUDIT IN THE ERA OF CONTINUOUS TRANSFORMATION

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Abstract

One of the biggest challenges of the internal audit function in recent years has been and remains the positioning of the internal audit as a strategic function that brings added value to a company.

In the context of ongoing developments in the IT industry, as well as changes in operational processes, the ability of internal audit functions to readjust their audit plans, audit processes, and the human resources needed to conduct business is constantly being tested.

Thus, it becomes necessary to identify innovative practices to support the internal audit function in its process of transformation in this era of digitization and high volume of big data.

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The term audit comes from the Latin word audit-auditing, which means "to listen", but the audit is spoken from the time of the Assyrians, Egyptians, during the reign of Charlemagne or Edward I of England. Audit activities were carried out over time in Romania, but they bore other names. The use of the term audit in the sense currently used is relatively recent and is placed during the economic crisis of 1929 in the United States of America, when companies were affected by the economic downturn and had to pay large sums to external auditors who certified the accounts of all listed companies.

The internal audit through its activities adds value, both by evaluating the internal control system and analyzing the risks associated with auditable activities, and by the recommendations contained in the report prepared and submitted in order to ensure the achievement of the organization's objectives.

According to Law no. 162/2017 on the statutory audit of the annual financial statements and the consolidated annual financial statements, the companies whose annual financial statements are subject to the statutory audit are obliged to organize and ensure the exercise of the internal audit activity.

The internal audit activity in the private sector is regulated by the Romanian Chamber of Financial Auditors (RCFA) and is performed in accordance with the

Mandatory Norms of the International Framework of Professional Practices (IFPP), issued by the Institute of Internal Auditors (IIA Global) and adopted by RCFA.

Those responsible for organizing and coordinating the internal audit activity must be active financial auditors registered in Romania, respectively active members of RCFA, authorized by the Authority for Public Supervision of the Statutory Audit Activity (APSSAA).

The internal auditor, employee or service provider, must be independent, objective, competent and responsible for the quality of the work performed. As such, he must not assume any operational or managerial responsibility within the organization in which his activity is carried out.

The organization and exercise of the internal audit activity is an exclusive responsibility of the organization and is implemented through the higher governance body (board of directors) or, where it exists, through a separate structure within it (respectively the Audit Committee).

The concept of corporate governance, although widely used in practice in recent decades, does not have a single established definition.

The first definition of corporate governance referred to "the set of rules by which a company is governed and controlled" (Cadbury, 1992). IIA (2000) defines corporate governance as "a set of procedures used by company stakeholder representatives to provide an overview of risk and management control procedures". According to the OECD definition, corporate governance is, at the same time, both a set of relationships between the management of the unit, the board of directors, shareholders and other groups of stakeholders, and the structure by which the company's objectives are established and the means necessary to achieve them, as well as the system of incentives offered to the board of directors and management to pursue the objectives in the interest of the shareholders and the company.

Nor does internal control have a single established definition. However, at the international level, the most used definition of internal control is the one formulated by COSO, respectively "internal control is a process implemented by the board of directors, management and other staff members of an entity, which aims to provide reasonable assurance as to the achievement of the following objectives: the effectiveness and efficiency of the functioning of internal control, the reliability of financial information, compliance with laws and regulations".

A cornerstone of sound corporate governance, an effective internal audit function provides undeniable benefits to companies, such as:

- Provides a means of monitoring and improving the internal control environment within the company;
- Provides independent reports to the board of directors;
- Focuses on the most important risks and aspects for the company, according to the instructions of the board of directors;
- Provides valuable information on a wide range of risks to companies, including financial, operational, technological, strategic, fraud and compliance risks;
- Improves internal controls by reducing risks, increasing efficiency and effectiveness and / or ensuring compliance with regulatory requirements;
- Provides recommendations to increase the efficiency and effectiveness of operational procedures;

- Facilitates an early warning system to identify and remedy deficiencies in a timely manner.

The major challenges facing company management also concern the company's internal human resources, such as the availability of employee skills and the ability to use data to drive innovation. Another equally important challenge concerns the external environment, respectively the complexity and uncertainty of normative regulations, and the difficulties encountered in strengthening corporate governance and strategic processes have gained a similar weight.

The complexity of the legislative framework, as well as the process of consolidating corporate governance, respectively strategic processes, is also positioned on the list of priorities of the internal audit departments.

Regarding the internal audit plan, a number of dimensions have been identified on which the institutions will focus in the coming years: efficiency and operational effectiveness, alignment with the company's objectives, as well as compliance with applicable regulations. Thus, it has been found that 89% of companies are concerned about the efficiency and operational effectiveness of internal processes. 71% of them have on the list of priorities, in terms of internal audit missions, the alignment of operations with the company's strategy and objectives.

In the current economic climate, characterized by slow growth, economic uncertainty, the advancement of technology, cyber threats, disruptive business models, increasingly restrictive regulations and intensified checks, companies must constantly analyze their business strategy and risk appetite.

In addition, it was found that for 58% of companies, compliance with regulations and related reporting is the third focus.

The roles of the internal audit function in the risk area are represented by:

- Providing independent assurance on risk management processes;
- Providing independent assurance that risks are assessed correctly;
- Evaluation of risk management processes;
- Assessing key risk reporting;
- Review of key risk management.

However, as a third "line of defense", internal auditors should not assume responsibilities for:

- Establishing the risk appetite;
- Imposing risk management processes;
- Making decisions on risk responses;
- Implementing risk responses on behalf of management;
- Risk management.

Another important feature, highlighted by 39% of companies, is the ability to provide a complete picture of the efficiency and effectiveness of financial and operational processes, as well as internal controls within the company.

Measuring the performance of the internal audit activity is of particular importance because it provides the opportunity to assess how the internal audit function is positioned in relation to other functions within the company. In this way, areas where improvements in applied audit practices and tools are needed can be identified.

Based on the study conducted by KPMG, April 2019, regarding the measurement of internal audit performance it can be seen that the following indicators are preferred to be used:

- Level of fulfillment of the audit plan: 63% of the respondents use the quantitative indicator “audit missions performed versus planned”;
- Degree of implementation of the recommendations: 53% of the specialists measure the quality of the audit mission through the accepted and implemented recommendations or through the prism of the external evaluation of the audit (39%);
- Surveys / feedback received from stakeholders: satisfaction level of the board of directors / supervisory board, audit committee, executive management (47%) or audited departments (32%).

Effective business governance is based on a framework that supports management's activities to achieve corporate goals. A robust framework defines the limits of acceptable behavior without necessarily restricting entrepreneurship.

Risk management and internal audit are important components of the governance framework. Internal audit strengthens a company's corporate governance through the perspective offered on processes and structures, providing an independent opinion on the effectiveness of all a company's internal processes.

Having an insurance and consulting role that adds value to the company and helps it achieve its strategic and operational objectives, internal audit is a basic ally of management. Therefore, in addition to internal audit missions established according to well-defined criteria, the internal audit receives and honors requests for ad hoc from the company's management to address special issues / situations, which, by their nature or conjuncture, could not be taken into account in the built audit plan.

CONCLUSIONS

Expectations from the internal audit function have never been higher. Corporate governance, risk management and internal controls are closely monitored by regulators and stakeholders. Internal auditors must be proactive and receptive to the challenges posed by market conditions, by continuously identifying and assessing existing and emerging risks.

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