

FUNCTIONAL AND PROCEDURAL COMPLEMENTARITY BETWEEN “INTERNAL AUDIT” AND “PUBLIC INTERNAL AUDIT”

Ph.D. Student **Ion CROITORU**

Ph.D. Professor **Emilia VASILE**

Ph.D. Student **Nicoleta Adriana GHERGHELAȘ**

Abstract

Regardless of the internal audit is carried out the examination and evaluation of all components and activities within an organization or public entity, assesses how it is and use the funds, while respecting the principles of efficiency and effectiveness and provides management information and independent views about to achieving results and managing resources used.

In this context, finding explanations for the delineation of concepts, procedures, principles and characteristics of internal audit carried out between private organizations and public internal audit and carried out in the public sector entities in our country in relation to international standards activities and internal audit are difficult to achieve, given the procedural and functional complementarity of these functions.

Comparative approach "internal audit" and "the internal audit, using as benchmarks of international auditing standards, highlights the fact that the internal audit function is recognized unit in any type of organization, without a distinction between the public and private system. Thus, it is necessary to determine the institutional constraints of the internal audit function and to identify future trends shift function so as to ensure improved quality of services provided to management.

Keywords: internal audit, public internal audit, internal control, risk management, governance, insurance, advisory, evaluation, objective.

JEL Classification: M00, M41, M42

General considerations

The internal audit functions have in our country in a relatively short period, a series of transformations to stabilize and its final implementation. ***So far, we can say that there is created the institutional framework necessary for carrying out this activity in all public entities and private sector organizations.***

Regarded as a function of the organization, *internal auditing is a managerial activity, but activity is carried out with managers in order to help and assist in the act of driving.* In this sense represents a balanced and effective channel of

information, independently and objectively, which gain assurance about the existence and functionality of the system of internal control.

Looked at in terms of its purpose and mission, internal audit is a specific autonomous activity, which requires professionalism and fairness and a tool to optimize the work necessary to complete activities in the organization, serving the organization's management, the various stakeholders and the state. The recommendations offered to management without a thorough intake goals in risk management and efficient use of financial resources available to public entities.

However, the management culture organizations in our country, as regards the place and role of internal audit and the impact of such work of leadership performance is poor. Thus, confusion about the location managers internal audit in comparison with other functions within the entity leads to the conclusion that this activity is not yet understood as a component of the control system to evaluate the role of this system and provide a management assurance on its functionality.

The conceptual approach "internal audit" and "public internal Audit"

The internal audit function is a useful and effective assessment of risk management processes, control and corporate governance and one of the elements that ensure "good management of the establishment and use of funds." *The role of internal audit is to inform management about the failures of the organization, to make investigations and collect evidence to support findings, and make sure that all the good internal control measures have been taken so that the organization meet objectives.*

a. In our country dictionaries meaning assigned the term internal audit is different. Thus, the term is defined in some dictionaries as "*a function of control and auditing of a company*", while in others it is defined as "*a process by which competent persons employed to collect and assess evidence and form- an opinion on the degree of correlation between the observed and certain predetermined criteria.*" In practice, the internal audit opinions are divided, some experts contend that the audit is a "*control function*", while others agree that the audit is an "*evaluation function*".

b. The period of internal audit in the public sector in our country is used and regulated "*public internal audit*" and was defined by Law no. 672/2002 on public internal audit as "*functional activity that gives independent and objective assurance and advice for the proper management of revenue and public expenditure management, improving the activities of the public entity, public entity to help meet its objectives through a systematic and methodical approach assesses and improves the efficiency and effectiveness of the management system based on risk management, control and management processes.*"

c. For the private sector in Romania, is the task of regulating the internal audit Chamber of Financial Auditors Romania (CFAR), which by internal audit standards adopted in 2007, defined this type of audit as "*an independent and*

objective activity that gives an entity a assurance as to the degree of control over operations, a guide to improve operations and contribute to adding value. Internal audit helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach, its risk management processes, control and governance of the organization and making proposals to strengthen their effectiveness. "

From analysis of the two definitions are the following features:

- The definition of internal auditing in the private sector fully CFAR adopted the *standard definition, international, internal audit, accepted by most experts in the field*, given in 1999 by the Institute of Internal Auditors (IIA). This definition of well known and described in the literature, is criticized by some, others considered too restrictive, or insufficiently explained, believes other professional groups held a research and accurate positioning of the internal audit.

- *The public internal audit definition given by the Law 672/2002 on public internal audit, internal audit includes the most specific features of the private sector.*

We believe that internal audit is to ***examine the information professional in order to express an opinion and independent charge by reference to a criterion.*** *In this sense, the purpose of the audit is to assess the defect based on defined criteria and to develop corrective actions to eliminate such non-compliance.*

Regarding the conceptual seed resulting from the two definitions, between internal audit and internal public audit, mention that they can be viewed both in terms of organizational and procedural, as follows:

- *internal audit function is centered on the idea of independence from other functions of the entity or organization and to the activities they audit;*

- *internal audit meets a role to ensure proper management for better management of the entity's activities;*

- *Internal audit assesses the risk management processes, control and governance within an entity or organization and help to improve their;*

- *the audit process, called the audit engagement is carried out in both cases on the basis of methodological rules, which were based on international auditing standards;*

- *collecting and analyzing information in carrying out the audit is based on universally recognized methods and techniques in the field, providing the auditor audit evidence on which it based its opinion;*

- *Internal audit does not seek prosecution of employees, but contribute to improving performance through reporting risks.*

One element that distinguishes the definition given in the public internal audit is that internal auditors in the public sector provides management and advisory work in the development and improvement activities. This activity is not reflected in the advice definition for internal auditing in the private sector, while

the internal auditors working in this sector also performs management advisory activities.

We also consider that these definitions are used incorrectly the term "activity" instead of "function". The work is more elementary than one function.

In conclusion, the meaning is the same as the public internal audit and internal audit. A calculation based on the fact that *the internal audit carried out in such private entities in their review activities to improve performance on risk management processes, control and good governance. Internal audit is conducted by an authorized person gives an assurance that the degree of control over operations and directs the organization to improve operations. This objective is pursued and conducted internal audits in the public sector, as follows.*

Audit. The definition of the public internal audit, it appears that this activity is the *examination of an information professional in order to express a responsible and independent views by reference to a predefined criterion.*

Public. If the audit is an exercise in public institutions, including entities in the coordination, subordination, or under the authority and the economic entities with majority state ownership or those using public funds or community, it is considered to be audit public.

Intern. If exercised in an audit is conducted by a public institution or a person employed under the driver's compartment of the public entity within the system so, when, and public internal audit is internal and must comply with the methodology implemented in this regard.

In this context, we believe that internal audit is an activity that provides management, evaluations and tests conducted by an insurance or advice on the quality of internal control system, it supports the establishment of monitoring instruments and evaluate the effectiveness and efficiency of activities, thus contributing to their continued improvement.

Complementarity between internal audit and public internal audit

To further clarify the role and content of the two concepts "internal audit" and "public internal audit", will address issues related to the positioning of these functions, objectives and scope, and key management services they provide. In this context we make the following considerations:

- *regulatory framework in the field of public internal audit, states, by definition elevated, the purpose of this type of audit and "pass" on him and objectives of management or financial control.* The same kind of objectives are, and internal audit.

- the person making public internal audit is an employee of that entity and has the status of "internal auditor in the public sector" as **occupational standards**, developed in this field. Same as an internal auditor meets and private sector, indicating that internal audit can be done in this sector and contract-based services.

a. Position the two functions. Comparative analysis of the legal, methodological and procedural framework, within which activates the function, highlighted the following:

Statute functions. Internal audit carried out both in the public and private sectors, is done through internal audit structures created in separate entities or organizations. Persons exercising the functions of internal auditors are employees of those entities or organizations. Please note that internal auditing in the private sector can also be achieved by natural or legal persons under contract of service.

Position functions. Internal audit is organized, in both sectors directly subordinate to the highest level, meaning the senior management. It is considered part of the internal control system, but the nature of internal control activities do not, but evaluate the functionality of the internal control system, for which is held separately from internal control.

Nature activities. Public internal audit mission carried insurance is the objective examination of evidence, undertaken in order to provide an independent public entity risk management processes, control or governance and advisory missions designed to add value and assist management public entity to improve processes, but without the internal auditor to assume managerial responsibilities. The same guy and audits are conducted by internal audit functions in private.

Development activities. Audits conducted both by internal audit and the public internal audit have completed a periodic, planned and approved in advance. The audit covers a wide field, including in addition to all functions and activities within an entity and all its dimensions.

Ensure independence. Internal auditor operating in public or private entity has a relative independence because on the one hand it is independent in exercising its function and dependent on the other hand that it belongs to the entity. Auditor independence increases in the private sector when the work is done on a contractual basis by the provision of services.

Results of activities. Internal auditors, regardless of the operating entity, based on checks that set out the findings and conclusions based on sufficient evidence and eloquent, and according to the causes that have resulted in failures detected recommendations. All this information is centralized in an audit report, approved by the head entity. The recommendations made by auditors of public entities such as the private sector and not binding on the entity's management, but they are responsible for any deficiencies produced as a result of not implementing the recommendations made by auditors.

Methodology used. The methodology used by internal auditors is determined separately in the public system to private, but the content is similar procedural. In both cases the risk assessment audits, internal control and management processes and seek value adding activities and processes carried out in the entity.

Audit objective. Internal audit organized and conducted both public and private sectors, mainly aims to assess risk management systems, control and governance of the organization or public entity, especially regarding the creation and use of funds, and heritage management in order to provide reasonable assurance that these systems operate as intended, that will allow the organization or public entity to achieve its goals and targets and also to propose recommendations for their improvement

Audit reporting. Internal auditors of public entities operating in the mission report results of internal audit by the highest governing body and the recipients of audit reports are audited structures and other stakeholders, with management approval. If private sector organizations, internal auditors report on internal audit results, the General Assembly of shareholders / association or Board of Directors, audit reports and the beneficiaries are the shareholders, directors and managers at all levels.

The analysis, presented above, it appears that the public internal audit has for most of the criteria for comparison, in common with public sector internal audit exercise. These common points are identified specific activities for all sides: the organization, operation, objectives, methodology, method and reporting.

The difference between the two functions are not related to functional or organizational nature, but certain features created in one sector or another on the application of methodology or procedural framework, respectively:

- private sector internal audit pate be exercised based service contract, while the public sector internal auditor can only entity employee;

- to participate in the contest for the position of internal auditor in the public sector, that person is subject to advance a professional assessment and an opinion;

- private sector internal auditor expresses an opinion on annual financial statements, while the auditor of public sector internal audit performed and activities including financial implications, depending on risk analysis and internal audit plan;

- with all that planning and carrying out audits involve the same steps and procedures, legal framework is established separately.

Institutionalization of internal audit work separately, public entities and private sector entities, created at a time and some confusion about the responsibility of organizing and exercising the internal audit activity. Thus, in Case nr.108/2008, CFAR institution that provides internal audit regulation in the private sector, has enhanced its internal audit procedures and specific private sector companies who have chosen to audit the financial statements and public entities use public funds or public assets under management. This statutory internal audit to management entities have created some confusion regarding:

- on the one hand, they were public entities and were obliged to organize the internal audit activity in accordance with the Law on public internal audit nr.672/2002;

- on the other hand, these annual financial statements of public entities were subject to financial audit and therefore had to organize the internal audit activity in accordance with decision no. 88/2007 for the approval of internal audit.

However, it stated that the changes imposed by the normative acts adopted in internal audit generated a new approach to this work, both conceptual and methodological point of view and from an organizational perspective, the effects at all levels, from employee and reaching the public entity or organization as a whole.

b. Objectives and field of internal audit. Given that the trends and the main goals pursued by public entities and private sector organizations are also respectively modernization and efficiency of activities to define the main objectives of internal audit is necessary to take into account that this function is a component of the control system, which assesses and improves the efficiency and effectiveness based on risk management, control and management processes. Analyzed in this context, the main objectives of internal audit can be divided as follows:

Risk Management Evaluation. Internal audit helps the public entity or organization working in the private system, providing assurance that risk management system is adequate and sufficient to protect the funds and good management of their heritage, thus helping to identify and assess significant risks and basing recommendations improve this system.

Risk management is a major responsibility of management to be sure to achieve its objectives, the implementation and smooth functioning of risk management processes. Internal audit requirement is to follow the proper functioning of sufficient and effective processes.

However, it made the difference between the active role of the auditor in the implementation and management of risk control device and the role of "responsible risk." Internal auditors may allow the risk management processes and ensure that management and employees have mastered this process, but can not assume responsibility for implementing control devices to limit risk or keeping them within certain limits.

To provide an opinion regarding the effectiveness of adaptation and control device implemented for risk mitigation, internal auditors also ensure that the risk management process to the following main requirements:

- risks arising from the strategies and activities are identified and prioritized;
- there is established an acceptable level of risk to the organization, taking into account the requirements laid down to implement planned activities;
- are defined and implemented measures to manage and limit risk, taking into account the threshold deemed acceptable by management;

- provides a monitoring activities and periodic risk assessment and control functionality;
- the governance of the organization provide regular reports on outcomes of risk control.

Compared to the above, we believe that internal audit should provide assurance that *risk management system is adequate and sufficient to protect their assets, reputation and activities, to help identify and assess significant risks and to propose recommendations for improving this system.*

Evaluation of internal control. Internal Audit *assists management to maintain an effective and efficient internal control system, evaluating the reliability of financial and operational information, effectiveness and efficiency of operations, cash management processes and public property, compliance with laws, regulations and contracts. In this sense, highlighted significant weaknesses in control devices and propose recommendations for improving internal control.*

Thus, the main responsibility of management is the implementation of risk management and control processes and their maintenance is operating at acceptable levels. The role of internal audit is to monitor implementation, management and assessment of management processes and provide different levels of assurance regarding the effectiveness and operation of control instruments in place.

However, internal auditors must determine whether management has defined appropriate criteria for evaluating internal control. If these criteria are adequate, internal auditors are used in the evaluation, otherwise the new criteria set by the management entity that is appropriate for assessment of internal control.

Based on this, consider that the internal audit management should provide support for maintaining an effective and efficient internal control, assessing the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, processes, heritage protection, compliance with laws, regulations and contracts, highlighting any significant weaknesses in control processes and proposing recommendations for improving internal control.

Evaluating the process of governance of the public entity. Starting from the sense that every entity has an "identity own ", we believe that the practices adopted by it in terms of governance are the result of their own culture, evolving and affecting roles, conditional behaviors, determine goals and strategies, measure performance and defines responsibilities. In this regard, internal audit is to contribute actively to support the organization's ethical culture, and to determine the managers and other employees of the entity to comply with these responsibilities according to their position within the entity.

Based on this, we believe that internal audit should assess the governance of public organizations in order to substantiate the suggestions to improve it, actively supporting the preservation of fundamental values of the organization, promoting

ethical conduct and causing drivers and other employees to and comply with their obligations.

c. ***Services offered by the internal audit.*** In the sense of international internal audit standards, one of the main objectives of internal audit, performed both in the public and private sector is to improve their management can be achieved mainly through:

Insurance activities, which is the objective examination of evidence, undertaken in order to provide an independent public entity risk management processes, control or governance. The internal audit provides assurance given an opinion on the processes relating to risk management and control of good administration.

Counseling activities designed to add value and improve governance processes, but without the internal auditor to assume managerial responsibilities. Counseling activities can be considered an extension of the insurance business, these types of services that can interact or be mutually complementary.

Conclusions:

Definitions of internal audit and the public internal audit, expresses that, evaluating and improving risk management is a first aspect to be considered by both types of audits. Their role in risk assessment is to establish auditing and related activities to identify risks. In view of these criteria are established based on risk analysis and assess how their management manages and maintains the level of these risk limits. Thus, it is noted that the burden of internal auditors is the same regardless of the fact that they work in public or private sector.

Internal control approach is similar, both in the public and private sectors. This similarity is caused by the characteristics generally shared control systems applied in the two sectors, which involve risks in addition to identifying and developing internal audit procedures. These procedures have common characteristics and are designed to provide assurance that internal control systems implemented risks remain within acceptable limits.

The analysis shows that the two functions are similar, both organizationally and functionally, as well as methodological and procedural. Therefore, we can say that an internal audit mission carried out by one or other of the methodology, using the same techniques and audit tools and produces the same results.

Also point out that *the internal audit function is internationally recognized and regulated, including international auditing standards in a uniform manner for any type of organization, without a distinction between the public and private. On the other hand, the auditor training conducted within specific bodies, giving it the power necessary for operation in any type of entity."*

Summarizing the above, on the complementarity of public internal audit and internal audit and considering the importance of these functions to follow sound management of entities, we conclude the following:

a. *The character of recent internal audit function explained largely manifest contradiction with the fact that this function is known, usually, than by those who exercise and relatively poorly known in its environment.*

b. *Unification of methodological and procedural legal framework for public internal audit prepared at developed for internal audit, which will have positive effects on the internal audit activity, namely:*

- *agreement with international internal auditing standards and European practice;*

- *develop a common framework for continuing professional training and internal auditors will provide new skills for them;*

- *extending the positive experience in internal audit and on this basis, creating the possibility for internal auditors to find the best solution in any circumstances could be found in practice.*

In this context, we consider it necessary and adopt national *standards for internal audit*, which is applicable to both public and private sectors. Promote them as good practice, will enhance the quality of processes, because the auditor will not be strait-laced observance of a default and mandatory procedural framework, but will be free to choose their individual work procedure that applies in carrying out audits internally, but will have to meet the requirements defined by standards.

REFERENCES:

1. G. Chitu, Ioanas, Corina, *The audit of public institutions*, Bucharest, CECCAR, 2005;
2. D. Dascalu, Nicholas F., *Internal audit in public institutions*, Economic Publishing House, Bucharest, 2006;
3. Loebblecke A., *Audit. An integrated approach*, ARC House, 8th Edition, 2003;
4. K.H. Spencer Pickett, *Auditing the Risk Management Process* - New Jersey, USA, 2005;
5. Morariu, G. Suci, F. Stoian, *Internal Audit and Corporate Governance*, University Publishing House, Bucharest, 2008;
6. Victor Munteanu, Marilena Zucă Stephen Zucă, *Internal audit and public enterprises*, Wolters Kluwer Publishing, 2010;
7. J. Renard - *Theorie et pratique de l'internal audit*, Editions d'Organisation, Paris, 2004;
8. Nicolescu O., Zecheru V., 2005, *Audit management in the public institution*, Tribune Publishing House, Bucharest;
9. Robert de Koning, *Public Internal Financial Control*, Belgium, 2007;
10. Zecheru Vasile, Marian Nastase, *Management "object" Internal Audit*, Economics, 2005.