

## **INTERNAL AUDIT AND ITS IMPACT ON FINANCIAL ACCOUNTING SYSTEM**

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### **Abstract:**

*Financial accounting system is characterized by a set of processes, procedures, resources (financial, material, human and informational) and means of recording, processing, transmitting and storing data and information of specific activities and economic environment in which the organization is organized and operates. In this context we can say that financial accounting system includes all activities within an organization that are reflected in fund management and property management.*

*Internal audit is a function within the organization which helps to improve their management activities and provide reasonable assurance regarding the existence and operation of risk management processes, internal control and good management.*

*Regarding the financial accounting system, internal audit evaluates the reliability of data and financial information and operational effectiveness of operations and transactions, the management of funds and assets of the organization and ensure the maintenance of acceptable levels of risk associated with the system and an effective internal control and effectively.*

*Given those mentioned this research aims to highlight the impact of internal audit on financial accounting activities carried out within an organization and contributing to increasing the credibility of financial information.*

**Keywords:** internal audit, internal control, risk management, financial accounting system

**JEL clasification:** M00; M41; M42

### **The role of internal audit in assessing the financial accounting system**

The management of an organization by managing the processes of the institution is responsible for ensuring the integrity and protecting the organization's assets and achieving the intended results through the efficient and effective use of available resources. Organizing and ensuring appropriate management of financial and accounting activities lead to reflection in accounting of all transactions and property transactions in accordance with the law, contractual and good practice in the field and to obtain relevant and reliable information.

Internal audit is to enhance the credibility of the information contained in the financial statements through its presentation in accordance with generally accepted accounting standards and principles. In this regard, evaluates activities under accounting system, identifying irregularities and imbalances and make recommendations to eliminate their causes. The recommendations must lead to the goals of the organization in which they are formulated and effective use of available resources.

Activities in the financial accounting system can not be achieved in terms of performance if there are irregularities or non-compliances their achievements. Internal Audit assesses the functionality of the internal control system implemented in these activities and ensures that it works as a whole.

In general, the current practice in internal auditing, financial accounting related activities is to ensure the compliance of operations and transactions within an organization in relation to legal regulations,

Internal audit role in improving financial accounting system should ensure focused on ensuring relevance and reliability of financial information and financial and accounting optimization activities undertaken by the organization.

Seen through this prism of internal audit assesses financial and accounting activities and contribute to their improvement, in terms of regularity and conformity in terms of performance.

Internal audit evaluates the systems of risk management, control, and governance specific financial accounting system, particularly as regards the establishment and use of public funds and the management of public assets in order to provide reasonable assurance that these systems function after as expected, enables management to achieve targets and goals and also propose recommendations for their improvement.

### **Ensuring relevance and reliability of financial information**

In this task, internal audit compliance monitor compliance and regularity of financial transactions and property, including financial statements and has fidelity implementation of control measures in situations where deviations to eliminate the causes that generated dysfunctions identified. Identified fraud is reported to the competent investigation authorities.

Financial and accounting activities are the main source of economic information for managerial decisions and for third parties who have interests to the organization. In this context, the internal audit is becoming a necessity, which evaluates how compliance procedures, rules and specific regulations and whether activities are carried out efficiently and effectively.

Also, to assess the compliance of the financial statements on the principle of a true image, internal audit must know the accounting system used by the organization and internal control system implemented. An effective internal control system and adapted the organizational environment prevents errors and inaccuracies and detect fraudulent activities.

Through internal control system, which is responsible for management, implemented organizational means action aimed at organizational structures, procedures, tools and techniques created in order:

- ✓ achieving the organization's mission effectively and efficiently;
- ✓ compliance with legal and management provisions;
- ✓ heritage protection against loss and fraud;
- ✓ provide true and fair financial information necessary to support management decisions.

By examining the observance of the transactions and internal audit transactions prevents errors, identify and deter illegal acts of fraud intentions.

This need exists and therefore the tendency shown by some organizations in terms of creative accounting, characterized by manipulation, within the regulatory framework in force, figures accounting by choosing accounting practices that enable the transformation of the summaries of what would be in what managers want to be.

Creative accounting, internal audit attention is because the application processes within the law, actual results are changed, meaning the information contained in the financial statements are optimized or minimized depending on interests. Modification techniques financial results are the result of applying accounting policies and treatments recommended by international accounting standards.

To eliminate intentions to implement such processes, financial accounting system assessment by internal audit in terms of compliance and regularity becomes a necessity. This need arises from the fact that the accounting statements should present the true image of economic activity carried out by the organization, and for that internal audit verifies the accuracy and regularity of underlying transactions, the effectiveness of methods and organizational procedures and express reasonable assurance. Reasonable assurance can be provided if internal audit get answers on the following:

- ✓ chronological and systematic registration of economic operations and property;
- ✓  proper accounting records management; patrimonial integrity, including debt and capital;
- ✓ reality debt, liabilities, income and expenses;
- ✓ compliance with the rules, regulations and standards applicable in the field;
- ✓ reliability of financial statements.

Also, the internal audit considers that, if the organization is facing financial difficulties, in many cases uses weaknesses and flexibility in the rules governing financial and accounting information contained distort financial statements.

For providing reasonable assurance regarding the functionality of the financial accounting system, internal auditors must evaluate the rules and principles that govern this system, namely:

Nr. crt.	Elements of the accounting	Objectives of Internal Auditing
1	Objectives	The objectives are clear, covering the organization's mission and vision Performance indicators measure the quantitative and qualitative objectives and expressed an adequate level of performance
2	Regulatory framework	The regulatory framework is fully respected Regulations on highlighting the financial and accounting activities are properly applied Operations and transactions are correctly reflected in the accounts and term Procedures are developed, updated and respected and corresponding regulations and practices

3	The organizational structure	The organizational structure is adequate specific organization Activities and tasks are appropriately held accountable The posts are properly designed and individualized Tasks are set according to job level and qualifications
4	Resources	The budget is approved and ensure objectives The human resource is qualified, stable and properly accountable Material resource is well managed The information system is adequate
5	Activities and Processes	Operations and transactions are recorded chronologically and systematically The accounting records are based on documents Payments made are correct and authorized Accounting records are managed properly Organization obligations and rights against third parties are reflected correctly Patrimonial integrity is ensured The financial statements reflect the true image Internal controls ensure segregation of duties, approval and authorization operations

The internal audit system ensures that risk management is adequate and sufficient funds and property and protects the organization helps in proper management of these and contributes to identifying and assessing significant risks to improve this system. In this context, the role of internal audit is as follows:

- ✓ encourage and promote the development of risk management by examining and assessing risk management processes implemented by management and reporting and recommendations for improvements.
- ✓ assess risks and express an opinion regarding the effectiveness of the risk management process, taking into consideration the following criteria:

- a) risks are identified and prioritized activities undertaken;
- b) management has established a level of risk acceptance;
- c) measures to limit the impact of risks are established and implemented;
- d) risks are regularly monitored;
- e) management is informed of the risks.

To provide an opinion regarding the risk management, internal auditors must have reliable information that each stage of the process (risk identification, risk assessment, treatment risks, risk control and risk monitoring) is applied and work properly.

Regarding the functionality of internal control, internal audit by the assessments it makes should ensure that it guarantees regarding:

- ✓ objectives economically, efficiently and effectively;
- ✓ heritage protection and information produced by the organization;
- ✓ prevent and detect fraud and error;
- ✓ quality of operations and economic transactions and accounting records;
- ✓ credibility, compliance and reality of financial information and financial statements provided.

The internal control system aims to help staff manage risks and meet the targets. Management is implementing a process of internal control and internal audit provides assurance regarding the degree of effectiveness of the process in practice.

Evaluation of effectiveness of internal control process specific financial and accounting activity consider the following:

- ✓ significant anomalies and weaknesses in internal control process;
- ✓ degree of risk caused by faults or weaknesses and their consequences;
- ✓ correct anomalies and weaknesses and better.

To evaluate the internal control system, internal audit must determine the extent to which management has defined appropriate criteria to assess whether the objectives have been achieved. If these criteria are adequate, internal auditors must use the assessment they make. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

Practices adopted regarding management processes is the result of leadership style and organizational environment, influencing roles, conditional behaviors, determine goals and strategies, measure performance and define responsibilities. Thus, the effectiveness of the management process largely depends on the culture.

Internal audit should contribute actively in supporting the process of governance, to determine the leadership and employees of the accounting department to fulfill the duties and responsibilities established.

### **Optimizing financial activities accounting**

In this task, the internal audit analyzes the financial and accounting activities, or financial implications undertaken by the organization, and to whether public funds are used in an efficient and effective financial accounting and whether the information is appropriate and relevant products. Through recommendations intended to improve the organization's performance in respect of the establishment and use of resources.

An organization is efficient if both efficient and effective allocation and use of available resources, including:

- ✓ there is a link to the results obtained;
- ✓ there is a fixed size for performance, reflected by: saving resources; cost of operation; business efficiency; efficacy results; quality results;
- ✓ a system for measuring the results, performance indicators and associated targets.

Performance in public organizations is associated:

- ✓ economy - buying the necessary resources at the lowest cost and at a certain quality level;
- ✓ efficiency - getting the maximum possible results with a given level of resources or a smaller one;
- ✓ effectiveness - results lead to the objectives set.

Internal audit in assessing the financial and accounting activity examine whether the financial resources are managed in an economic, efficient and effective organization, namely in terms of performance. In this context, the overall objective of internal audit on the financial and accounting must follow the application of the principles of sound financial management in the allocation and use of resources. The achievement checks should focus on the following:

- ✓ evaluation of the use of resources (expenditures) and measures on optimizing the use of resources;
- ✓ how to establish criteria and performance indicators;
- ✓ assess achievement of the objectives and performance levels achieved.

Given those requirements, internal audit organization to examine how effective management of resources and the best possible level of performance, that if they worked properly and if they did the right thing.

To achieve the first goal the organization must comply with the regulations and requirements established and operate in accordance with good practice in the field. This keeps the efficiency with which obtain, protect and use resources and how laws and regulations are respected.

To achieve the second goal organization must ensure the achievement of objectives in terms of efficiency and effectiveness. This keeps the degree to which the expected results are achieved, the effectiveness of programs and activities.

To provide a reasonable assurance on the degree of optimization of financial and accounting activities, internal auditors must evaluate the performance of the business through the financial accounting performance characteristic elements, namely economy, efficiency and effectiveness.

Followed by internal audit results can be summarized as follows:

No. crt.	Element	Results
1.	Economy	<ul style="list-style-type: none"> <li>✓ design and use of resources</li> <li>✓ compliance with laws and regulations</li> <li>✓ the reliability of the information system</li> <li>✓ heritage protection</li> <li>✓ reliability of information</li> </ul>
2.	Efficiency	<ul style="list-style-type: none"> <li>✓ the amount of resources used</li> <li>✓ quality financial information obtained and provided</li> </ul>
3.	Effectiveness	<ul style="list-style-type: none"> <li>✓ achieving results</li> <li>✓ effectiveness of the programs</li> <li>✓ effectiveness of activities</li> <li>✓ reaching goals</li> </ul>

It is necessary to measure performance indicators and attach objectives designed to make it possible quantitative and qualitative assessment of the achievement of their relative results. The criteria followed by the internal audit in assessing the quality and sufficiency indicator focus on the following:

- ✓ how to define the indicator;
- ✓ the decision on indicator development;
- ✓ formula for calculating the indicator;
- ✓ frequency of calculation of the indicator;

- ✓ why the choice of indicator;
- ✓ volume of information which is based on measuring the indicator;
- ✓ data sources required calculation indicator;
- ✓ interaction with other indicators;
- ✓ types of decisions that can be taken on the basis of the indicator.

Considering that one of the objectives of any organization is to continuously develop, management should consider action on the changes in content of functions; improve planning and management style, basing better decisions, measurement and performance evaluation or even behavioral changes.

In this context, decisions must be directed to ensure an organizational framework and effective oversight of activities. Need for auditing financial and accounting activity is based on the need for information management regarding financial and patrimonial situation, to make decisions consistent and effective, based on facts.

In the process of auditing the financial and accounting activity should be considered:

- ✓ first step in providing assurance on the accuracy and reliability of financial information and compliance. In this context, the audit of financial and accounting activity, is in compliance with laws, regulations and contracts, reliability and integrity of financial and operational information, heritage protection and information and prevention and detection of fraud and errors;
- ✓ in the second stage, providing assurance on economy, efficiency and effectiveness of available resources and degree of achievement of objectives.

Performance of an organization is given the degree to which constitute their income and ensure their proper use through an optimal combination of efficiency (resources were allocated, managed and used effectively) and effectiveness (results ensure that the objectives).

## **Conclusion**

Rhythms development of information and communication technology require changes in the structure of financial accounting system, largely due to the elimination of manual operations and their realization made in an automated manner. This though leads to elimination of errors on certain levels of registration of operations; opportunities for fraud are kept at the same levels, which are determined by way of registration and licensing system operations and security patrimonial assets.

In this context, it is necessary to change the approach to internal audit, which must verify the accuracy, completeness and accuracy of financial

information. The questions you need to ask themselves internal audit and the need to find answers are on the following:

- ✓ What aspects of internal audit should be pursued and what level of knowledge implies?
- ✓ what changes to procedures, audit methods and techniques used or applied;
- ✓ properly conducted sampling to carry out examinations and checks;
- ✓ properly planned, structured and conducted testing and audit evidence obtained.

To these must be added that the production of financial information not only participates financial-accounting, but interferes all functional departments within the organization.

Functional departments within the organization to set objectives and develops economic activities involving financial resources, while financial-accounting processes primary economic information produced within the organization. Thus, the resources consumed in the functional departments are individualized, endorsed and approved and transmitted the financial-accounting which shall register their property record of the organization, to settle the obligations and rights which arose as a result of the economic activities and coverage of the whole process developed in the financial statements.

In this context, the involvement of internal audit in improving financial accounting system should be summarized into the following:

- ✓ if it worked properly, the auditor assesses the compliance of regulations and strategic requirements, following aspects of resource efficiency in carrying;
- ✓ if he did the right thing, the auditor evaluates the effectiveness and impact of activities to achieve the objectives and assessing the extent to which the desired results were achieved.

The internal audit evaluates the activities of the organization as a whole and follows the way of resource utilization and application of the principles of efficiency and effectiveness and how to ensure the integrity of the property.

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