

PERSPECTIVES OF THE PERFORMANCE OF INTERNAL AUDIT IN ECONOMIC ORGANIZATIONS

Cristian Virgiliu RADU, PhD Student

University of Valahia Targoviste, Romania
crradu@hotmail.com

Abstract: *The paper focuses mainly on documentary research and critical analysis, addressing important theoretical issues such as: definition of internal audit, positioning of this function in economic organizations, including public ones; objectives, functions and field of public internal audit; the importance of internal audit of economic organizations; the internal audit mission, the internal audit risk, etc. Based on the critical analysis of the definitions of internal audit: the international standard definition and the definition of internal public audit in Romania, improved concepts have emerged that give them wider applicability and greater availability for creative intervention and ingenious resolution by stakeholders on the development and efficiency of public institutions through the internal audit. In this paper, we have proposed an approach to the various issues of the audit, starting from the premise that the synthesis is essential for increasing the knowledge and appreciation of the role of internal audit in the economic sector and they can become real lessons of applicability practice the various aspects of the audit, thus having the opportunity to outline the good practices of the performance management in general and of the audit in particular.*

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1. The efficiency and impact of internal audit on the performance of economic organizations

A generally accepted definition of value added does not exist, there are significant differences in value added from one entity to another.

Some studies show that some internal practitioners believe that we can only talk about added value when internal audit helps management improve its business as opposed to a compliance audit that only checks compliance with policies and procedures in the same time for other specialists is true the exact opposite case. Last but not least, an essential aspect is related to the necessity and benefits of the collaboration between the public internal audit and the external public audit, as well as ways to cooperate in complementing the internal and external audit activity.

Following the study of the specialized literature, we could conclude that external public audit is an independent activity carried out by specialized bodies outside the audited entity with the purpose of analyzing and evaluating how to achieve the objectives of the entity's activity, verifying the legality and regularity of the establishment and use public financial resources, their economic, effective and efficient use, the organization and functioning of control systems, and the effectiveness of internal auditing.

The reality in all countries of the world shows that, in fact, the most credible attestation of financial reporting in the public sector belongs to the Supreme Audit Institutions, institutions whose independence is guaranteed by the laws of organization and functioning or constitutional provisions on which they were founded.

The main purpose of the Supreme Audit Institutions is to examine report and express pertinent opinions on the sound administration of public money. In addition, some institutions are also empowered to examine the economy, efficiency and effectiveness of public funds being used.

Documentary research has allowed us to notice that in order to promote and develop best practices on external audit of the training and use of public funds, the Supreme Audit Institutions have formed their own professional bodies, either international or the International Organization of Institutions Supreme Audit (INTOSAI) or regional ones, such as the European Organization of Supreme Audit Institutions (EUROSAI). These bodies have developed their own audit standards, which they develop and promote in the work of the Supreme Audit Institutions of each member country. The available information on how the Supreme Audit Institutions report and demonstrate their own performance are relatively low, but there seems to be a concern in this regard as early as the late 1990s when researchers began benchmarking performance audits and public management from some European institutions. Thus, among the most important studies in this regard are those carried out by Pollitt and Summa (1997), Pollitt et al. (1999), and Pollitt (2003), which compared the

role and impact of the National Audit Office of the United Kingdom, the Public Audit Office of Finland, the Swedish National Audit Bureau, the Netherlands Court of Auditors and the Court of Accounts of France.

The conclusions of these studies demonstrate that the work of the Supreme Audit Institutions has had an impact on changing the behavior and practices of audited entities but also on political decisions, the legislature and the general public with the help of the media Pollitt (2003, pp. 157-70), so we can state that for the Supreme Audit Institutions Audit has become a challenge to measure the impact of their work both qualitatively and quantitatively.

It is extremely difficult to measure the value that a Supreme Audit Institution generates over the activities and performance of public sector entities. Even on a small scale, the impact of SAI auditors' recommendations is hard to quantify.

The review of the annual public reports of the two supreme audit institutions compared has attracted attention not only to the important contribution to protecting the public budget but also to the impact of the recommendations made on the economic and social environment (sustainable development and quality of life).

2. Models to quantify the performance of internal audit in economic organizations

Starting from the extremely important issue of the role of the Supreme Audit Institutions in promoting and enhancing sustainable development and implicitly increasing citizens' quality of life, which is crucially based on transparency and increased government accountability as developed in the previous subchapter, we can conclude that there is a link between the quality of external public audit and the standard of living, and a future direction of research may be the study of the link between the audit performed by the Romanian Court of Accounts and the standard of living of the population at regional level/or national as a basis for ensuring the increase in the efficiency of resource management of economic organizations.

The logic of the analysis of the link between the results of the external public audit performed by the Romanian Court of Accounts and the standard of living of the citizens, calculated with the GDP per capita indicator, may be based on the assumption that the existence of a lower standard of living would be one of the determinants of generating frauds from public money.

In order to verify this hypothesis, we believe that it is necessary to correlate the results obtained as a result of the external public audit performed by the Court of Accounts by quantifying the estimated additional damages and revenues during the last 10-20 years with the value recorded by the regional GDP per capita indicator and national. The issue of reducing the prejudice reported by the Romanian Court of Accounts' reports on public budgets / consolidated general budget is a topic of topicality and reality for our country to find effective solutions to stop or even reduce this phenomenon.

The analysis of living standards as a basis for increasing the efficiency of resource management of economic organizations is important because all economic activity must be subordinated to a single goal, namely to create better conditions for meeting the concrete needs of the population.

We conclude that, although there is a serious difficulty in quantifying the added value created by internal audit, and despite the diversity that carries the concept of added value, if the internal audit function really wants to expand its contribution, to address this challenge of measuring added value and demonstrating to the management of entities that they can create real value from all their activities.

Starting from the fact that both the internal and the external public audit have as common goal the improvement of the economic and financial activity of the public entities, it is imperative that there are complementary relations between the two activities. However, we cannot fail to notice the fact that although the issue of the complementarity of the two activities is now legally regulated, it is very brief, it is not indicated the concrete way of achieving the collaboration of the two forms of audit in order to ensure the complementarity of the audit activity with positive effects in the plan to increase the efficiency of the training and spending of public funds. It is necessary to improve the legal framework and to involve the Court of Auditors more actively in solving this essential issue in order to improve the public audit activity.

In our opinion, the collaboration between the internal auditing and external auditing structures involves a whole range of benefits for both parties and for entities. Performing a quality audit implies the adequate communication of both sides and contributes to the strengthening of the relations of collaboration and in time, to the mutual trust.

We consider that the efficiency of public audit activity could be achieved by:

- permanent communication that can be the key to success;
- professionalism and respect for audited entities;

- the existence of a desire to share the findings;
- effective collaboration, useful for both sides, but also for the audited entity;
- communication and mutual exchange of information that will contribute to the better organization of activities and to the provision of increased quality of work;
- the need to increase mutual trust between the two audit structures;
- the basic motto should be collaboration and communication.

Another aspect that must always be taken into account in the audit missions, especially those of public external audit, should address one of the most serious phenomena facing Romania in the current stage, namely corruption. Corruption disrupts society's resources from their destination, affecting financial order and discipline, efficiency in the use of public money, with adverse consequences for public entities, but also for honest citizens. Identifying the concrete forms of corruption, assessing its size and controlling the phenomenon implies external public audit that should focus its actions on the protection of public financial resources. Adapting audit methodologies to the professionalism of criminals, expanding cross-border collaboration, aligning internal and external auditing to international standards and good practice in the field, should become an absolute priority, so the audit can prove to be the basis for assuring increased administration efficiency resources of economic organizations.

In fact, the efficiency and effectiveness of the internal public audit is the result of the joint action of organizing the audit structure and its degree of integration within the public entity, coupled with the quality of the human factor and their performance management. Although there have been doctrinal divergences, due to the early age of public internal audit in Romania, which have the source of confronting two opposing concepts, namely repressive (police) and preventive (counseling and consulting), the last of them imposed as the prevalence, both in national legislation, in practice, and in the organizational culture of audited entities;

The effectiveness of the operational audit can be expressed on the one hand in figures (recovered losses, avoided losses, achieved gains), but also in other at least equally important results: the pertinence of the recommendations formulated, the updating of the entity's risk geography, the identification of the identified opportunities and the improvement internal control. The performance of the internal audit system's management and its value are highlighted by

the self-evaluation and evaluation of the superior hierarchical structure, but especially by the way it is reflected in the organizational culture of the audited entities as beneficiaries of the audit.

The audit structure as a whole generates performance and efficiency to the extent that it brings new elements of good practice, formulates and promotes pertinent proposals to improve the organizational, normative and procedural framework that are agreed and implemented by management. Internal audit is a recognized tool for changing the management mentalities and employees of public entities, from the current state to a new state, the one supposed by the concept of corporate governance, which means that a public entity must be run the same as a business, all the more so as public money is concerned.

3. The system of indicators on the current performance of public internal audit

By addressing an international audit over the last period, the audit concept has been refined more and more by creating a stand-alone field with its own objectives, but also with specific methods and techniques, although initially only an investigation was carried out of the entity's transactions. At the same time, as in any economic field, the different types of audit, their purpose, means and techniques are constantly evolving and adapted to the transformations in the existing environment, which implies continuous professional training of auditors. Following the study of the specialized literature, I was able to identify and group the types of audit according to several criteria. In our opinion the most eloquent criterion is the one according to the way of organizing the activity, according to which the public audit can be: own to the public (internal) entities; exerted from outside the entity (external). The usefulness of the audit is given by the impact of this activity on the performance of public entities.

Public auditing should be done on the basis of the cause-effect-correction-prevention analysis of the audited activities. It should not be limited to finding deficiencies, but it is imperative to focus on preventing negative states in preventing imbalances and dysfunctions that may arise.

In defining the underlying subject of public audit work, it is necessary to understand the functions of public finances and through which they carry out their social mission. The subject of the audit activity is public financial funds as well as public patrimony. The features of public finances are a transfer of value and not a change in form of value, always a form of money, a non-

reimbursable title, and the absence of direct and immediate consideration, and aim at satisfying the general interest and well-being of society.

In our opinion, the basic subject of public audit is the formation and use of public financial resources. The clear reality that public financial resources materialize much of the gross domestic product is a solid argument that advocates public audit work on public financial resources, maintaining integrity and good governance of public goods. Public external audit reports have generally highlighted insufficient concern from public entities to ensure the accuracy of financial statement data and a sound financial management governed by sound economic and financial management. It confirms that public funds and public assets are managed in a regime where their use is not a priority criterion. In order to eliminate the confusion that still exists between internal audit and other internal forms of public administration control and to customize the internal audit work, we consider it necessary to delimit the objectives of these concepts. In the current stage, at the level of public entities there is still a series of confusions between the budget credit coordinators and even those with internal audit duties, as this is considered internal audit as a verification operation, even if in the current context, in which all entities, including the public, are interested in performance, this activity is a good tool for the efficiency of public entities' activity.

Through its assurance and advice missions on the management of public funds, the assessment of risk management and internal control processes, internal audit work contributes to public accountability in public money management and, ultimately, to increased performance financial management of public entities. So internal audit is not an end in itself but a result of the need to improve the activity of public entities and should be treated as such. From the analysis of the particularities of the internal audit activity towards other forms of internal audit and financial management of some public entities, we found that in practice there is no clear distinction between the responsibilities of the internal audit and those of the financial management control.

A rebate from unauthorized legislation, it seems to us that in some public entities the management control is performed by internal auditors, although one of the essential roles of internal audit is precisely the assessment of internal control and management control. This inappropriate state of affairs leads to a subjective assessment of internal control with repercussions on good patrimonial management of public entities. Underlining the supreme role of public audit by adding value to entities managing public resources and assets

and presenting how value added could be quantified. The public auditor is a promoter of value added by:

- the savings and efficiency it generates in the use of public funds,
- the opportunities it creates,
- through losses or negative conditions that can be avoided due to its actions,

but also a factor that ensures transparency in the organization's activities and contributes to streamlining its policies.

Elements that add value to the entity through audit work are concretized to track the integrity of the patrimony by identifying fraud, damage and non-economic costs, preventing damage, identifying opportunities and savings, proposing and implementing internal control procedures and devices, in conjunction with updating the risk mapping of audited entities based on the most significant findings of audit engagements.

Indicators are the most important tool for assessing the effectiveness of internal audit. From the analysis of the specialized literature, we identified the main indicators devoted to assessing the activity and the quality of the internal audit, as shown below.

The main quantitative indicators are:

- achievement of the annual audit plan - calculated as a ratio between the number of missions performed and the number of missions foreseen in the plan. The indicator may be detailed by measuring, in relation to the plan provisions, the number of ongoing missions, the number of deferred missions or the number of missed missions but also those made and unforeseen;
- the average duration of audit engagements - measured as a ratio between the number of audit days and the number of missions;
- the amount of audit time in total available time - is calculated as the ratio between the number of audit days and the number of days worked. It is an indicator whose tracking allows to identify the evolution of the time for the performance of audit activities compared to the total available time of work;
- the share of the time allocated to professional training - calculated as number of days of professional training related to the number of days worked. Measures the evolution of the training time assigned to each auditor;

- the average number of pages of audit reports - is calculated as the ratio between the number of pages of internal audit reports and the number of reports. It allows measuring the average number of pages of audit reports, from one mission to another, from one month to the next.

We consider that it is not advisable to define what could mean “appropriate evolution” or “optimal evolution”. It is clear that an audit report should contain no fewer pages than necessary for clear, unambiguous expression of assurance on the audited objectives. There is a non-productive and inefficient view, according to which the audit report should have as few pages as possible.

The main quality indicators are:

- the proportion of unplanned missions in total missions - is calculated as a ratio between the number of unplanned missions and the total number of missions deployed. Allows tracking the quality of the audit plan;
- the degree of acceptance of recommendations - is calculated as a ratio between the number of unsupported recommendations (refused) and the total number of recommendations made. Express the pertinence and the degree of appreciation of the recommendations formulated by the representatives of the audited entities;
- implementation of recommendations - calculated as a ratio between the number of recommendations fully implemented and the number of recommendations accepted. It provides a view on the quality of the implementation process of the recommendations, but also on their relevance by tracking the existence of recommendations that although accepted, are impossible to implement because this process does not depend exclusively on the audited entity. In our opinion, the formulation of such recommendations should be avoided;
- the share of managerial activities in total working time - is calculated as the ratio between the number of days devoted to managerial activities and the total number of days worked. Express the reserves to improve the use of available working time;
- completion of audit files - is calculated as a ratio between the number of incomplete audit files and the number of missions. Express the quality of the completion of the audit engagement stage;
- preventive damage - calculated as a ratio between the amount of damage that has been prevented and the amount of damage. Express the evolution of the quality of the counseling and preventive activities carried out by the internal audit;

- the share of the damages in the totality of the presumed damages - is calculated as the ratio between the amount of damage determined as a result of the internal audit mission and the total value of the presumed damages. Express the correctness of the internal audit calculations and findings, as well as the quality of the recommendations made and the process of their implementation;
- the degree of implementation of recommendations during the audit engagement - is calculated as the ratio between the number of recommendations implemented during the audit engagement and the total number of accepted recommendations;
- the extent of damage recovery during the audit engagement - calculated as the ratio between the amount of damage recovered during the audit engagement and the total value of the presumed damage identified during audit engagements;
- the opportunity to spend - is calculated as a ratio between the amount of inappropriate expenditure and the total amount of expenditure incurred in a financial year. Express the reserves to improve the efficiency of spending public funds;
- relative efficiency of internal audit - is calculated as the ratio between the total amount of the damages plus the value of the damages prevented and the total value of the expenses determined by the audit engagement. Expresses the economic “profitability” of the internal audit and the degree of coverage of its expenses. Efficiency is “relative” because it fails to include in figures other very important aspects of the quality of internal audit (relevance of recommendations, impact of counseling, updating of risk geography, risk analysis, etc.).

The main cost indicators are:

- auditor costs - is calculated as the ratio between the total cost of the audit structure and the number of auditors. It is a budget indicator that allows tracking the evolution of the budget and of the staff;
- the average cost of a mission day - calculated as the ratio of the total cost of the audit structure to the total number of mission days. The indicator allows tracking the evolution of the average cost of a mission day and comparing it to similar market costs. The analysis can be detailed on direct and indirect costs, salaries, travel expenses, accommodation expenses, etc.

Conclusions

In the perception of the internal auditor, good risk management needs to be ensured by all employees of the economic organization, but this requires sustained efforts to raise awareness of the need. Internal public auditors are most aware of the essential role of public internal audit in increasing the accountability of entities involved in the formation and use of public funds, as well as the need for collaboration between public and external public audits, although at present, as a general perception, little credibility is given to the internal audit report. Identifying the possibilities to increase the efficiency of public audit through the collaboration of external public and internal audit in terms of good public money management as well as good communication with UCCAPI are solutions that internal auditors of the department can continue to use in the future. The completion of this positive research has confirmed certain assumptions about the issues studied, especially regarding the impact of the results of internal auditors' findings in an entity on the achievement of corporate governance objectives.

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