

TRIDIMENSIONAL APPROACHES OF THE INTERNAL AUDIT, PRIVATE, PUBLIC AND BANKING SYSTEM

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Abstract. Entities, no matter what operating system they have, private, public, banking, have as a purpose the value adding. The internal audit has its contribution to the achievement of this goal. This research explains the tridimensional approach of the concept of internal audit and identifies the elements that emphasize, in a tridimensional way, the internal audit. The steps of the reaserch take into consideration a synthesis of the materials published by the national and international accounting standards, by professional bodies, papers on this theme proposed for debat, as well as materials of the economic entities.

Key words: internal audit, internal public audit, banking internal audit, risk, plusvalue

1. The internal audit concept, a tridimensional approach?

Coming into being from Ancient times, the internal audit has had the sense of an administrative proceeding which consists in checking the documents, taking an inventory of goods and reporting the past events to the responsible persons. The internal audit concept was founded during the economic crisis from USA in 1929, when the officially quoted entities had the obligation to certify the financial situations by the external auditors. In order to diminish the costs of the external auditors' fees, the entities created internal audit departments to carry out the preceeding audit works, the external auditors' job remaining the one of certifying the financial situations. After the economic crisis ended, the internal auditors has continued their mission in a way which allowed the extension of the audit domain, being necessary a specific function for the internal audit activity within each entity. So, it begins to settle into shape the internal audit function, which has been recognized in France since 1960, based on its accounting control origin.

The evolution analysis of the internal audit concept, reveals that the risk concept emergence has influenced the internal audit concept, too. The internal audit development has known three stages: risk identification and analysis, internal control systems, audit of activities with emphasis on risks (Namee & Selim, 1997). In general terms, the risk is defined by the combination of event occurence and its consequences. Thus, the risk is a series of challenges to confront in the context of making major decissions because it diminishes the emphasise on success and restrains results achievement.

In terms of the International Standards of Internal Audit, the risk is the possibility of an event occurence that could have impact on the objective accomplishment.

In terms of the internal control – internal audit relationship, the risk is an assembly of occurences that could have negative consequences upon an entity whose internal control and internal audit have as a mission the ensurance of a good control upon them.

Though different, the presented definitions have as a common denominator the incertitude and the negative impact on the financial performance of entities.

Setting out the Internal Auditors Institute (IAI) and giving a complex definition to this concept have led to the development of the internal audit. In terms of the International Standards of Internal Audit issued by IAI, the internal audit is an independent and objective activity which gives to an entity assurance regarding the degree of controlling the operations, offers guidance to the entity in order to improve its operations and contributes to an additional value. Internal audit helps this organization to achieve its objectives, evaluating, by a systematic and methodologic approach, its risk management processes, its control and management processes, helping it with proposals of effectiveness consolidation.

Adhesion to the European Union and economies globalisation led to the internal audit creation in Romania in 1999. The major objective of any entity, that is progress, is sustained by the internal audit, too. In this regard, the concept of internal audit has been defined for each system: private, public and banking.

In the private system entities, the internal audit is the activity of objective examining of the economic activity assembly in order to provide an independent evaluation of the risk management, control and leadership processes. When the organizational frame involves state participation, the entity receives the title of a public entity, and the audit becomes a public internal audit. The public entity concept nominates the public authority, public institution, autonomous regia, national company/society, commercial society where the state or an administrative-territorial unit is a majority shareholder and bears juridical personality.

The national regulations define the public internal audit as being the independent and objective activity which offers assurances and counselling to the managing board for the good administration of public revenues and expenses, improving the activities of the public entity; it supports the public entity to achieve its objectives by means of a systematic and methodological approach that evaluates and improves efficiency and effectiveness of the leadership system based on the risk, control and administration process management.

The public sector entities development, and implicitly the economy development, cannot be sustained without the existence of a secure banking system. The national regulations in the banking field do not offer an appropriate definition for the internal audit in the credit institutions or the given definition was in accordance with the banking system existing five years ago: the internal audit is an independent activity assigned for the credit institution improvement, either by accomplishing certain audit agreements or by awarding certain consulting services to the audited structures/entities.

Thorough examination of the internal audit definitions in private-public-banking terms shows that all of them emerge from the internal audit definition given by the International Standards of Audit. No matter what sector of activity it applies, the internal audit follows the same main goal: to add plusvalue, to support the entity in achieving its objectives by missions of assurance and counselling which take into consideration the risk, operational control and governance management. The internal audit major responsibility is also sustained by Morris (1992) who appreciates the vital role of the internal audit and the support given to the managing board "to take charge of the internal control". This opinion consolidates the internal audit role, regardless of the operating system, those of certifying to the managing board the quality of existing internal controls, the way of applying them, the implemented strategy correctness and effectiveness, offering courage and trust. In our opinion, we consider that the tridimensional delimitation of the internal audit is not conceptual but rather on regulation and activity area.

2. The internal audit tridimensional characteristics

Though the internal audit concept is unique, there exists a series of elements which defines this concept in a tridimensional way. As regards to the applicability, the internal audit in the private sector is compulsory only for the entities whose annual financial situations are examined either as a result of law or as a decision of the shareholders. For the entities which have no obligation of financial situations audit, the implementation of the internal audit function represents a measure whose opportunity and necessity are appreciated by the managing bodies, and the norms applicable to the function and to those who bear it keep the character of recommendations.

In the public system, the entity has the obligation, by law, to organize and assure the mission of public internal audit. Besides the attributes at micro level, of promoting the economic development and implicitly the social one, by creating the appropriate frame and sizing the appropriate prizes, the state takes part differently, according to the fields, in specific markets being interested in an optimum management of the resources involved. In addition, for the public entities, having the role of satisfying the community interests at local or national level, of accomplishing certain economico-social objectives within the responsibility

area of the state and administrative-territorial units authority, the existence and way of functioning of the managerial function of internal control to be monitorized by means of an internal audit mission represent indispensable attributes, instruments whose usage assure the guarantee of increasing the success chances and, last but not least, of a good and responsible manager image which the public perceives regarding the state and its institutions.

In the banking system, the risk is a permanent companion for any transaction or process developed by the credit institutions, with negative consequences upon them by impairing the quality of affairs, diminishing the profit or even registration of losses leading to the alteration of the institution functioning. Thus, the internal audit has become compulsory by law, instrument by means of which the banking system can be monitorized and any infringement of regulations can be immediately notified, analysed and monitorized till their solving.

The internal audit tridimension is more evident from point of view of the objectives taken into account.

For the private system, the internal audit covers the assembly of the economic entities activities, each of them, individually or cummulatively, possibly being the weak link of the processual chain to affect the accomplishment of the entity goals in efficiency conditions.

In the public sector, according to the national regulations, the internal audit focuses on the following aspects:

- Financial activities or with financial implications developed by the public entity from the moment of concluding the agreements until the use of funds by the final beneficiaries, including the funds from external assistance;
- Establishing the public revenues, respectively the certification and establishment of credit bonds, as well as the facilities awarded at their incashing;
- Administration of the public patrimony as well as the purchasing, pledging, concessioning or renting of goods from the state private/public domain or the domain of administrative-territorial units;
- Financial and control management systems, including related accounting and informatics systems.

By this research we consider that the creation, use of public funds and administration of public patrimony represent the characteristics which delimit indubitably the public internal audit from the private one, respectively the banking one.

On the opposite side there is the banking internal audit, which has the role of offering to the managing board information in order to diminish the negative consequences generated by risks in achieving the goals of the credit institution, as well as the efficiency of the risk management process.

The internal audit tridimensional characteristics are emphasized by its typology in the following way:

Internal audit in the private system	The regularity (conformity) audit checks if the entity does what it says it does, if the rules and proceedings established by the entity itself are rightfully applied
	The effectiveness audit answer the question regarding the management of the entity with maximum of effectiveness and efficiency
	The management audit is interested in the existence of the management policy, the integration of the sectorial policy in it, knowledge and application of this policy
	The strategy audit confronts the entity policies and strategies with the environment and among them, having as a goal the assurance of global coherence
Public internal	The system audit is a detailed assessment of management and internal control systems in order to establish if these systems operate in economic, effective and efficient ways for identifying the deficiencies and for enouncing recommendations for their correction

audit	The performance audit examines if the established criteria for the implementation of the objectives and public entity's tasks are right for evaluating the results and it appraises if the results are in line with the objectives
	The regularity audit checks the actions upon the financial effects taking into account the public funds or the public patrimony, under the compliance with the principles, procedural and methodological rules which are applied to them
Banking internal audit	The financial audit checks the accounting and informatics system credibility and the credibility of the financial situations
	The conformity audit checks the compliance with the laws, regulations, policies and proceedings
	The operational audit has as objective the check of systems and proceedings quality and adequacy, the critical analysis of the organizatoric structure, evaluation of the methods and resource adequacy in relation with the established objectives
	The board audit assesses from qualitative point of view the way in which the management function is undergone for the accomplishment of credit institution objectives

Tridimensional approaches of the internal audit typology

The analysis of the internal audit typology from private-public-banking view emphasizes the fact that although the internal audit forms interfere with the three systems, it has different titles and the public system characteristic is reflected by the performance audit characterized by the application of the principles of economy, efficiency and effectiveness and dominated by the analysis exigence "if the public money was properly spent".

Conclusions

The undertaken analysis shows that no matter what property form the capital bears, the entities organization, the operating system – private-public-banking, the internal audit concept is not tridimensional. Independence, objectivity, competence and professional competence represent the fundamental principles governing any internal audit mission. Its goal is unique: to ensure the degree of control upon the operations for the entity, to guide the entity in order to improve its operations and to contribute to the adding of a plusvalue.

The tridimensional delimitation of the internal audit is based on the objectives and the activity area, and all the further differencies are generated by these delimitations. The tridimensional characteristics analysis of the internal audit emphasizes that for the private system the internal audit covers the economic entities' assembly of activities, each of them, indivicually or cumulatively, possibly being the weak link of the processual chain to affect the accomplishment of the entity goals in efficency conditions. For the public system, the internal audit is focused on what has influence upon the good administration of public revenues and expenditures.

On the opposite side there is the banking internal audit, which has the role of offering to the managing board information in order to diminish the negative consequences generated by risks in achieving the goals of the credit institution, as well as the efficiency of the risk management process.

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