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Current Trends in Internal Audit

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Abstract

Internal audit is considered a profession that has emerged over the years, always seeking to meet the changing needs of their organizations. Internal audit focused on accounting problems at its beginnings, but now it has become a powerful tool to detect the main risks of organizations. As function, internal audit is a relatively recent occurrence, located, according to some authors, during the 1929 economic crisis in USA.

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1. Introduction

In spite of all confusions and dysfunctions, the theoreticians and practitioners in the field have remarked a rapid evolution of the internal audit.

The internal audit, as a profession, has been redefined over the years and it has constantly complied with the changing needs of entities. So, if at the beginning it was focused on accounting issues, presently, internal audit has oriented to the detection of the main risks of the entity as well as to the evaluation of its activities. As a result of the research carried out on the evolution of internal audit, we can summarize that internal audit, over time, has showed the following trend in its evolution:  

Table no. 1.1. Brief History of Internal Auditing

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Source: author’s processing of Pickett K.H.S.‘s data

(1) Checking the accounting records. The team of auditors had the task of checking the records and whether they were correct or not. Under these conditions an indicator to measure the performance of the internal audit activity was represented by the number of wrongly identified accounting records.

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(2) Conformity assessment. Internal audit teams used to assess the extent to which parties complied with in financial procedures, through the use of checklists when performing different mission within the financial accounting department. Because they had the task to carry out unannounced control activities and examine the records in order to identify non-compliance with procedures, these teams were referred to as successful groups.

(3) Examination of procedures. An interesting development of the internal audit activity has occurred in 1960, when he gave more attention to the correct procedures. The role of internal audit was to examine the documents, check records, and identify the problems and to formulate the necessary recommendations to eliminate the causes that led to the problems. Moreover, auditors would identify errors or problems that were caused by the lack of clarity or wrong interpretation of procedures, finally proposing solutions to improve them. Thus, internal auditors’ opinions were helpful for the management by opening new horizons in the interpretation of the role of the internal audit.

(4) Evaluation of controls. This progress has been possible when attention focused on the proceedings was extended to several instruments of control. In these circumstances, the performance of an entity is not perceived as being the result of compliance with the manual procedures, but the result of the interaction of all control instruments which the staff is entitled to use for carrying out the tasks. Thus, the internal auditor is out of routine bounds and becomes a management advisor with respect to the various types of controls which could be implemented in the entity.

(5) Report on the internal control system. A new stage, a new phase of the development of the internal audit appeared in the form of independent opinions as a result of the assessment of the functionality of the internal control system within the entity. In this phase, specific to the period 1980-1990, there were used for the first time many of the techniques and tools for internal audit, their processing being done within the framework of the internal audit process.

(6) Evaluation of the risk management system. The year 1990 remarked itself for extensive use of risk management system, thus preventing entities that held the field due to some scandals, lack of an effective management or certain events that had had a major negative impact on their work. The use of some new and effective systems of operational risk management stresses the importance that corporate governance has for all types of businesses and services in public sector. As a result of such developments, many entities have paid more attention to internal audit and have implemented the risk management system. In these conditions, internal auditors had to examine and evaluate the risk management processes implemented by the managerial team. They also had to check if the processes were sufficient and effective, and finally draw up reports and recommendations for improving them.

(7) Improvement of the risk management system. During the period in which the work of internal auditors had begun to be characterized by uniformity due to the implementation of internal audit standards, large entities had started to follow a new trend. This trend was based on the use of the extended concept of risk management. This propagation among the leaders of the various notions of entities resulted in the emergence of new concerns regarding risk identification, assessment and implementation of internal control measures leading to the achievement of strategic goals of the entities. So, the component of counselling the internal audit activity has occurred.

(8) Reporting the activity performed. Even though the internal work was carried out on the basis of standards and supported entity management in achieving the objectives, in practice it has appeared necessary reporting the results of internal audit work to the highest level of management of the entity. In the first phase it was determined that this reporting is carried out in the form of an annual report of internal audit activity. Thus, through the internal audit recommendations can change management agenda and the implementation of the entity of some concrete steps that lead to the achievement of the proposed targets.

(9) Adding a value plus. This term was defined by I.I.A. as follows: “The role of organizations is to bring extra value or create advantages to their owners, their clients and other parties involve. This notion stands for their reason of being. The value results from providing services and products, as well as from using resources in order to promote these products and services. Collecting data for understanding and assessing risk, internal auditors acquire a thorough knowledge of the operations and the opportunities for improvement which can be extremely useful to their organization. Thus, they can provide precious information under the form of consulting, counselling, written communication or other forms, all having to be correctly transmitted to the management or operational personnel.”
The experts in the field consider it is necessary to set up a basic strategy that should lead to adding a value plus. This strategy should include:

- **Obtaining a maximum efficiency of internal audit**, mirrored in the balance between the impact as a consequence of implementing recommendations and costs related to internal audit structure;
- **Sustaining management in implementing a system of control within the entity**;
- **Setting up a general framework that the audit committee may count on, the strategy for the internal audit within the entity and guaranty to the committee members and management resources on which the recommendation is grounded**;
- **Identifying the key factors taking into consideration the current evolution and the trends manifested by the entity activity.**

(10) **Consolidation of the internal audit.** At present, in the developed countries, internal audit is a qualified system able to issue an opinion concerning relationships, process and/or management system. Internal audit is involved in supporting and strengthening of management processes, having as the main purpose the responsible and methodological action that should lead to different levels of performance set out to pursue the management processes with focus on strengthening management control.

Internal audit through the carried out activities adds value both by evaluating the internal control system and risk analysis associated with auditable activities and the recommendations recorded in the reports prepared and submitted for the purpose of achieving the objectives of the organization. Thus, by its high qualification, it represents the tool that can highlight the management’s awareness and eradicate the amateurism. The parties interested in the developments of the activities performed by an entity (shareholders, investors, employees, public institutions etc.) require information on how management decisions determine the results of the entity and are interested to hold insurances/guarantees concerning the quality of the management process.

The internal audit activity is based on a flexible frame of reference, widely accepted, which has the ability to adapt to the particularities of each country, in compliance with the rules governing the various sectors of activity and the culture of that particular entity.

**Internal Audit Framework** comprises:

- internal audit definition, that stipulates several basic elements:
  - internal audit carries out assurance and consultancy missions;
  - its fields are risk, internal control and entity administration;
  - the final scope of internal audit is to add value to organizations;
- deontological code that provides internal audit principles and values that allow them to steer professional practice depending on the specific context;
- professional norms (standards) for internal audit practice, which guides its auditors to carry out their missions and activities;
- practices of application that comment and explain the rules (standards) and recommend best practices;
- support for professional development consists primarily of works and articles of doctrine, colloquia documents, conferences and seminars.

Learning and applying the reference framework of the internal audit offers the management within entities where internal audit is implemented, an assurance regarding the experts’ professionalism in this field. Failure to comply with this framework can have negative effects on the credibility and effectiveness of the internal audit activity.

We remark that the standards are considered, in fact, the minimum guidelines. If the recommendations of a standard are not practical or cannot be applied, the internal auditor has the freedom of an alternative, provided that it be rigorously justified. In this context, we also point out that internal audit can bring added value to the entity only through a systemic and methodical approach.

The relationship between the internal auditor and the manager should be one of cooperation in view of the fact that they have the same goals namely the effectiveness of the management and the achievement of the proposed targets.

In fact, internal audit can only achieve the objectives of the organization if the system of internal control is well organized, formalized and made up of professional standards and rules, procedural guides and ethical codes.

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Internal auditors’ recommendations are implemented by the management whether the latter ones consider them useful. Therefore, internal auditors must produce real benefits for the entity through a systematic evaluation, based on the auditing standards and good practice in the field, policies, procedures as well as the operations carried out by the entity. On the other hand, the beneficiaries of those recommendations of the internal audit reports should be aware that they are responsible for the failure in implementing certain recommendations.

(11)What’s next? On the basis of the carried out studies, specialists in internal audit points out that currently “internal audit is at a crossroads and by the year 2013 a new strategic approach will be outlined on the grounds of the holistic management of risk management issues”. These statements are based on the current situation of internal audit departments within the major national and multinational entities, that, although they have significantly improved the ability of controlling financial risks, they are facing new challenges generated by the market trends and shareholders, namely the alignment of activities with the current level of risk management maturity.

2. Conclusions

Internal auditors will be mainly engaged in performing compliance internal audit missions, which will have negative effects in terms of the strategy of the entities, as the possibilities of improving the operational and financial performances that the internal auditors would be able to identify them on the occasion of the performance audit missions, are eliminated.

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