Systematic Approach to Internal Control and Audit from the Perspective of Organizational Culture Practiced by Entities of Romania

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A B S T R A C T	A R T I C L E I N F O
The internal control and audit system is a component of a company's management system that focuses on defining individual employee tasks, identifying and implementing the most efficient methods, implementing the most effective information system, and meeting all stakeholders' needs, expectations, and requirements. The different parts of the internal management control system can be integrated with the other parts of the general management system in order for the internal control objectives to complement the general objectives of an entity, such as development, financing, profitability, and the environment. This integration can make resource planning and allocation easier, formulate complementary goals, and evaluate the entity's overall efficiency. This reflects the current internal control and auditing method at the entity level regarding organizational culture. The study aims to use organized, statistically measurable (by applying markers of dispersion, central tendency, and correlation) evaluative, predictive, and causal methodologies to verify the theories and hypotheses proposed on the subject. Insurance and counselling add value to the entities' activities and aid management in maintaining efficient and effective internal audit and control, assessing the reliability of the information, evaluating the effectiveness and efficiency of operations funds and public property management processes, and ensuring compliance with laws, regulations, and contracts.	

1. INTRODUCTION

Organizational culture comprises a series of elements that might be more or less visible depending on how deeply we manage to penetrate its layers. The difficulty in perceiving an organization's culture stems from the diversity of its manifestations, the degree of visibility, and the fact that it includes elements that manifest at the conscious level and at the subconscious level, the rational and sentimental and emotional levels. Organizational culture encompasses all of the collective standards of thinking, attitudes, values, beliefs, conventions, and habits within an organization. We can distinguish some visible elements in the cultural component, such as common behaviours and languages, rituals and symbols. However, we have a lot of less visible components, such as perceptions and representations about what is valued in the organization, myths, and empirical standards about what it means to work well and behave correctly (Kotter and Heskett, 1992). A strong organizational culture is one in which employees' values and principles are aligned with those of the organization.

Internal control and audit should be used as a more formalized element of organizational culture because it starts with a strategy and a mission, analyzes and determines the increase in knowledge of the institution's particularities, involves management in its actions, and provides diagnosis and solutions that can lead to the desired level of success. Internal control and auditing are based on a simple concept: defining rules and adhering to them to ensure the effectiveness of activities taken and the achievement of set objectives (Jim, 2006). The culture will determine whether the rules introduced are easier or more challenging to understand by those who will implement them, will determine the degree of acceptance of the rules and implementation (because employees may perceive them as being in the spirit of their culture or simply as elements of stress), and will generate

Organizational culture, control, and internal audit are activities with a clearly applicative character and, since the work addresses the problems of organization, technology, and finalization, all this was taken into account during the study's development. Due to its impact on the institution's functionality and performance, organizational culture is one of the most approached themes in management, organizational behaviour, sociology, and internal control and audit. Most of the debates center on an organization's ability to contribute significantly to its competitive evolution by mobilizing its resources, particularly human resources. Even if there is still debate about the definition of organizational culture, experts agree that the majority of its constituents contain the foundational values of any institution in which we do not understand and behave. Therefore, a strong organizational culture is considered a significant factor in getting excellent performance from any institution. However, for this to occur, the organizational culture must be in sync with internal control and audit, which, when combined, respond as well as possible to external conditions, the economic environment, and the internal conditions of the entity. Therefore, knowledge of the specific elements of the organizational culture and internal control and audit (as part of the overall organizational culture) is an essential requirement for modern management in the conditions where we are witnessing an increase in the number of members of the institutions. At the same time, the development of internal control and audit from the perspective of organizational culture cannot be accomplished without in-depth research of special-literature.

If assimilated into the corporate culture, internal control and audit can be used to improve an activity, verify how information flows in the company, and identify the location where the resources are used or not. In other words, the question "What can you do in the institution?" can reveal the identification of measures to verify and organize the evidence analysis and the detection of errors or weak areas in some systems.

In terms of organizational culture, checking each internal organization problem will show strengths and weaknesses, system inadequacy, and the possibilities of enhancing their activities, effects, and uses.

The internal control and audit system is that part of the management system of an entity oriented towards the definition of the individual tasks of the staff, the identification and application of the most efficient methods, the introduction of the most effective methods of information, and the needs, expectations, and requirements of all interested parties. In order for the internal control objectives to be complementary to the general objectives of an entity, such as development, financing, profitability, and the environment, the different parts of the internal management control system have to be integrated with the other parts of the general management system. This integration can lead to better planning and allocation of resources, a better definition of complementary objectives, and the evaluation of the overall efficiency of the entity. This reflects the current way of controlling and auditing internally at the level of entities from the perspective of organizational culture. The analysis aims to verify the theories and hypotheses issued on the subject using structured, quantitatively measurable (using indicators of dispersion, central tendency, and correlation) techniques with an evaluative, predictive, and causal character. Insurance and counselling add value to the activities of the entities and support the management of the entities in maintaining efficient and effective internal audit and control, evaluating the reliability of information, effectiveness and efficiency of operations funds and public property management processes, and maintaining compliance with laws, regulations, and contracts.

2. LITERATURE REVIEW

The market economy entails an extensive system of economic and legal relationships between all participants in economic life, who are frequently referred to as players or protagonists in the economic and financial scene. This includes not only businesses and organizations, but also holders of property rights (statutes, stockholders and associations, and private entrepreneurs), domestic and foreign investors, administrative authorities, public or fiscal bodies, banks, bank goods and other values, patrimonial unit employees, and judicial bodies (Deal and Kennedy, 2000). Therefore, implementing a control and internal audit system, as well as its ongoing improvement, is one of the ways to keep the qualitative aspects of a public institution's activities under control.

The internal control and audit system is part of a public institution's management system to define individual staff tasks, identify and apply the most efficient methods, introduce the method, provide information, and satisfy the needs, expectations, and requirements. Since the objectives of internal control are complementary to the general objectives of an entity, such as development, financing, profitability, and environment, the various aspects of the internal management control system can be integrated with other sections of general management (Collins and Porras, 2000). This integration may make it easier to plan and allocate resources, define complementary objectives, and assess the entity's overall efficiency (Morariu et al., 2008).

The literature provides a wide range of definitions for organizational culture in Romania, including material creations, formal and informal conceptual constructions, socialization and indoctrination, rituals, myths, stated and practised theories of action, personalities of leaders, subcultures, host cultures, the history of the organization, humour, and so on. It is the consistent use of an internal model to determine an organization's behaviour, values, and patterns of thought, action, and speech (Jim and Jerry, 2006). The company defines as usual what helps employees discover meaning in their own organization's events and symbols (Hamel and Breen, 2010).

Organizational culture is similar to national culture in that it has roots in history, myths, heroes, and symbols; it evolves around the values passed down through generations; it creates the same type of collective subconscious; and it has a significant impact on the system's ability to change (Drucker, 2014). The organizational climate has a much smaller scope than the organizational culture, which can be thought of as a code, a logical system for structuring actions and meanings that has stood the test of time and serves members of the organization as a guide for adaptation and survival. It is partially a result of organizational members' subjective reactions to the impact of organizational culture on deciding how an individual shares the system's core values and credits and participates in material creation (Jim, 2006).

To correctly assess an organization's culture, a complete diagnosis of the organizational climate is required; however, this is insufficient. Furthermore, conflating the two notions can lead to incorrect conclusions, which is why their distinction is critical (Hamel and Breen, 2018).

Geert et al. (2012) define two levels of corporate culture that are in constant contact and influence one another. The values shared by members of the organization, which tend to drive collective behaviour, are included in the first level, which is unseen, par excellence conservative, and thus difficult to modify. The second is more visible and changeable, refers to the norms of conduct that are passed down to new members of the organization and are linked to a system of incentives and sanctions aligned with the organization's approved and shared values. Finally, the common denominator across these definitions is how things are done in our country (Gary, 2012). One of the most crucial elements to consider when understanding organizational culture is contextualizing the connection between culture and organizations, which may be done in two ways (Pink, 2011). Culture is something that the organization has (possesses), implying the ability to manipulate it, change it as desired, match it with a strategy, and use it as a management tool; culture is something that is organized (anthropological perspective), in other words, the realities experienced in common, something that its members experience.

Internal control within public entites is a concept that has been legislated in Romania for over 20 years, but it has sparked numerous debates and differing viewpoints on how it should be implemented (Petrès and Bunget, 2004). It does not represent a distinct notion, specific to the Romanian public sector, but rather a worldwide concept, generally accepted and implemented in all organizations. Internal control, in essence, is a collection of excellent management practices, historical management experience, and good practices that all businesses must follow. Internal control is crucial for the head of a public entity, as it is the primary tool that aids him in performing his managerial duties (Renard, 2002). For the performance of his/her duties, a manager must adequately operate within a context, such as objectives, plans, indicators, procedures, and risks, which are specific to the internal control system (Plumb, 2000). Therefore, internal control must be included in the measures and actions that must be taken in the context of the reform of public management. It is intended for people in management positions within a public body to facilitate, guide, and order the efforts to be made (Barney, 2006).

Internal control is defined as control that is organized and exercised from within economic and social units, or their immediately higher hierarchical levels, without reaching beyond the organizational system's framework (Bostan, 2000). The internal public audit carried out within Romanian public entities represents a functionally independent and objective activity that provides assurances and advice to management for the proper administration of public revenues and expenditures. The public activity aids the public entity in achieving its objectives. The purpose of an international audit is to evaluate and maintain risk management, control, and governance processes and assist public entities in achieving their objectives through a methodical and systematic evaluation. Internal auditing of the public entity's activities, including insurance and advice, adds value to the activities of the public entity, assists the management of the public entity in maintaining an efficient and effective internal control system, and evaluates the reliability of information, effectiveness, and efficiency of operations (Sascha, 2007).

3. AIM OF THE RESEARCH

The main purpose of the research is to identify the application of internal control and audit from the perspective of organizational culture.

The objectives of the research are:

1. Identifying and analyzing the internal control elements specific to the organizational culture;
2. Identifying and analyzing the internal audit elements specific to the organizational culture;
3. Determining the correlations between the elements of control and internal audit.

Based on studies and theories in the field of literature and personal observations, the following hypotheses have been formulated:

Hypothesis 1: There is no significant relationship between Ethics and integrity and Attributions, functions, tasks;

Hypothesis 2: There is a significant positive relationship between attributions, functions, tasks and competence and performance;

Hypothesis 3: There is a significant positive relationship between the monitoring of the performances and the evaluation of the internal control system.

The components of the internal control and audit architecture, from the perspective of the organizational culture, have a logical succession that aims at the practical application of the management functions.

4. RESEARCH METHODS

The data collection was carried out between February 2021 and June 2021, using the questionnaire. A number of 328 valid questionnaires were obtained.

In order to test the hypotheses formulated in terms of internal control and audit, from the perspective of organizational culture, the questionnaire was divided into six sections:

1. Ethics and integrity;
2. Duties, functions, tasks;
3. Competence and performance;
4. Monitoring the performance;
5. Evaluation of the internal control system;
6. Internal audit.

In the processing and analysis of the collected data, the special statistical research software SPSS (Statistical Package for the Social Sciences) was used, and the Spearman rho Correlation Coefficient was calculated.

5. FINDINGS

In the demonstration process of the existence of the variation between the elements of the internal control and internal audit architecture, from the perspective of the organizational culture, we used the correlation coefficient Spearman rho (Table 1).

Table 1: Spearman rho correlation coefficient values on Ethics and Integrity, Duties, Functions, Tasks, Competence and Performance

Spearman's rho		1. Ethics and integrity	2. Duties, functions, tasks	3. Competence and performance
1. Ethics and integrity	correlation coefficient	1.000	.923**	.908**
	Sig. (2-tailed)		.000	.000
	N	328	328	328
2. Duties, functions, tasks	correlation coefficient	.923**	1.000	.929**
	Sig. (2-tailed)	.000		.000
	N	328	328	328
3. Competence and performance	correlation coefficient	.908**	.929**	1.000
	Sig. (2-tailed)	.000	.000	
	N	328	328	328

Source: developed by the author based on the data collected

Following the analysis of the Spearman rho correlation coefficient, we can observe the following correlations between the elements of the internal control and audit architecture:

1. From the analysis of Table 1 one notes a very significant positive relationship between *1. Ethics and integrity* and *2. Attributions, functions, tasks* (rho = 0.92, df = 328, p <0.001). From the dispersion diagram (Figure 1), it can be observed that the spread of the points is relatively limited, which indicates a strong correlation ($R^2 = 0.87$). The slope of the scattering of the results is a relatively straight line, indicating a linear relation rather than a curvilinear one.

Staff members who have a high level of ethics and integrity, also score high on attributions, functions and tasks. We could say that Hypothesis 1 is not validated.
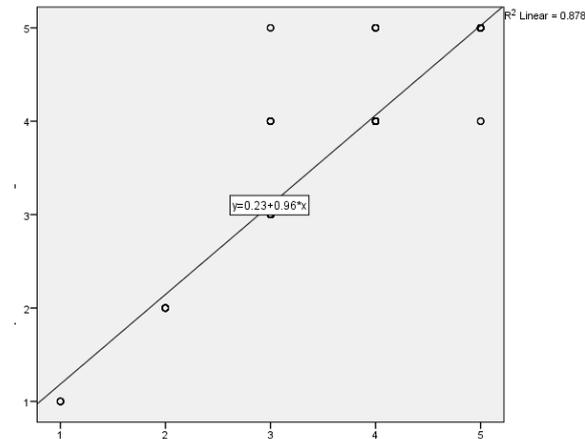
R² Linear = 0.878

y=0.23+0.96*x

Figure 1. Dispersion diagram - correlation between the elements Ethics and integrity and Attributions, functions, tasks
Source: developed by the author based on the data collected

2. It is possible to observe the existence of a very significant positive relationship between *1. Ethics and integrity* and *3. Competence and performance* (r = 0.90, df = 328, p <0.001). Figure 2, the dispersion diagram, shows that the spread of the points is relatively limited, which indicates a strong correlation (R^2 = 0.83). The slope of the scattering of the results is a relatively straight line indicating a linear relation rather than a curvilinear one. Staff members who have a high level of ethics and integrity, respectively score high on the level of competence and performance.
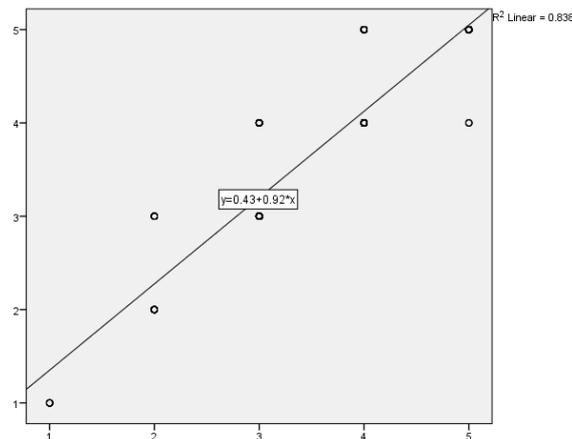

R² Linear = 0.838

y=0.43+0.92*x

Figure 2. Dispersion diagram - correlation between ethics and integrity and competence and performance
Source: developed by the author based on the data collected

3. Between *2. Attributions, functions, tasks* and *3. Competence and performance* there is a very significant positive relationship (rho = 0.92, df = 328, p <0.001). The dispersion diagram shows that the spread of the points is relatively limited which indicates a strong correlation (R^2 = 0.87). The slope of the scattering of the results is relatively straight line, indicating a linear relation rather than a curvilinear one (Figure 3). Staff members who have a high level of 2. Attributions, functions, and tasks also have a high level of 3. Competence and performance. Thus Hypothesis 2 was validated.
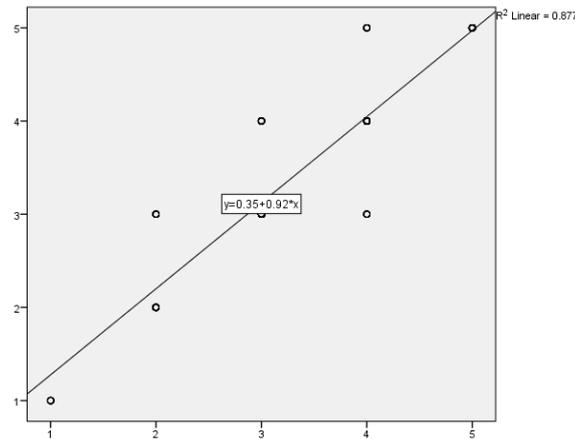
Figure 3. Dispersion diagram - correlation between the elements Attributions, functions, tasks and Competence and performance
Source: developed by the author based on the data collected

The internal control code establishes the requirements regarding the correct elaboration of the job descriptions, specifying the necessity of their clarity as well as of the correlation between the objectives of the compartment, the responsibilities of the manager and the official in charge.

The provision aims to reduce the risk of error by establishing, for the heads of organizational microstructures, the obligation to identify new or complex tasks assigned to subordinate employees. The requirement is necessary as the risk of error is higher for new or complex tasks which is why they should not be assigned to inexperienced employees or without proper training.

Following the analysis of the Spearman rho correlation coefficient, we can observe the following correlations between the elements of the internal control and audit architecture, as shown in Table 2.

Table 2: Spearman rho correlation coefficient results on Monitoring the performance, Evaluation of the internal control system, Internal audit

Spearman's rho		4. Monitoring the performance	5. Evaluation of the internal control system	6. Internal audit
4. Monitoring the performance	correlation coefficient	1.000	.821**	.934**
	Sig. (2-tailed)		.000	.000
	N	328	328	328
5. Evaluation of the internal control system	correlation coefficient	.821**	1.000	.803**
	Sig. (2-tailed)	.000		.000
	N	328	328	328
6. Internal audit	correlation coefficient	.908**	.929**	1.000
	Sig. (2-tailed)	.000	.000	
	N	328	328	328

Source: developed by the author based on the data collected

4. There is a very significant positive relationship between *4. Monitoring the performances* and *5. Evaluating the internal control system* (rho = 0.82, df = 328, p <0.001). From the dispersion diagram, it can be observed that the spread of the points is relatively limited, which indicates a strong correlation (R^2 = 0.70). The slope of the scattering of the results is a relatively straight line indicating a linear relation rather than a curvilinear one (Figure 4). Hypothesis 3 was partially validated.
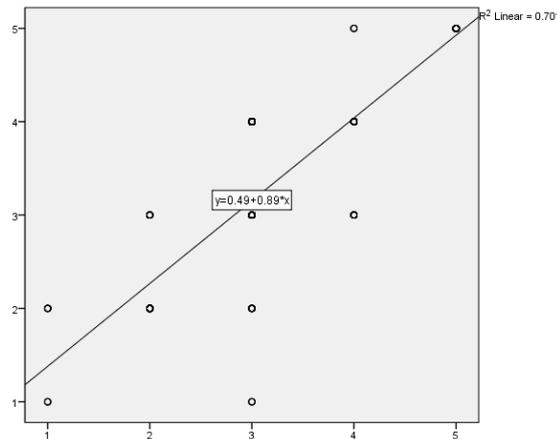

Figure 4. Dispersion diagram - correlation between Performance Monitoring and Evaluation of the internal control system
Source: developed by the author based on the data collected

Staff members who have a high level of performance Monitoring, also have a high level of evaluation of the internal control system.

2. Between *4. Performance monitoring* and *6. Internal audit* there is a significant positive relationship (rho = 0.75, df = 328, p <0.001). The dispersion diagram (Figure 5) shows that the spread of the points is relatively limited, which indicates a moderately strong correlation (R^2 = 0.60). The slope of the scattering of the results is a relatively straight line, indicating a linear relation rather than a curvilinear one.
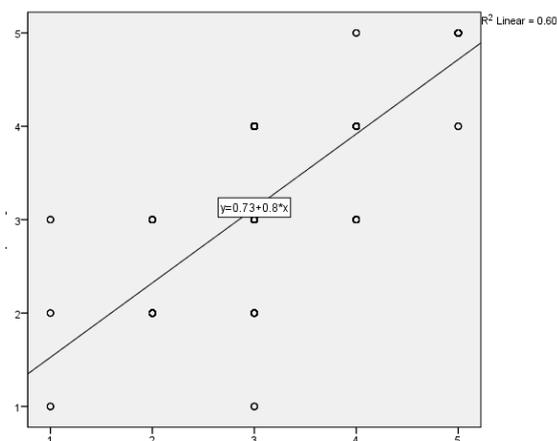

Figure 5. Dispersion Diagram - Correlation between Performance Monitoring and Internal Audit
Source: developed by the author based on the data collected

Staff members who have a high level of performance Monitoring, also have a high level of internal audit.

5. A very high positive relationship is identified between *5. Evaluation of the internal control system* and *6. Internal audit* (rho = 0.80, df = 328, p <0.001). The dispersion diagram (Figure 6) shows that the

spread of the points is relatively limited which indicates a strong correlation ($R^2 = 0.71$). The slope of the scattering of the results is a relatively straight line indicating a linear relation rather than a curvilinear one.
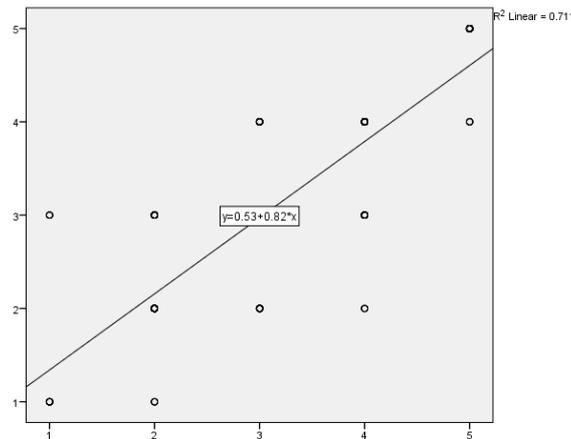

Figure 6. Dispersion Diagram - Correlation between Internal Control System Assessment and Internal Audit
Source: developed by the author based on the data collected

Staff members who have a high level of evaluation of the internal control system, also have a high level of competence in the internal audit.

6. CONCLUSION

From a theoretical point of view, the results obtained offer a perspective on the perceptions of internal control and audit, within the context of organizational culture. Therefore, within any institution where there is a robust organizational culture, with clear, well-structured values, with forms of manifestation of performance-oriented rooms, managers will be able to capitalize on cultural elements in the following manners:

✓ designing, promoting and applying a shared vision regarding the place, role and performance of the institution;
✓ amplifying the awareness of the positive impact that the values and norms of the institution have;
✓ improving the work climate and amplifying employees' performances;
✓ promoting and harmonizing individual initiatives with teamwork at all hierarchical levels;
✓ accelerating the decision-making process and increasing the degree of responsibilities for employees;
✓ amplifying the effectiveness of communications between and within teams;
✓ increasing the sensitivity and interest of employees for the adoption of specific symbols, values and behavioural norms.

The process of organizational culture, incorporating internal control and audit, is particularly important for the head of a public entity, as it is the primary tool that helps him in performing the managerial act. The correct application of control and internal audit standards, by each public entity, regardless of the field of activity and specificity, must represent an obligation explicitly assumed by each leader of the organization. In this sense, the existence of a solid organizational culture as well as a properly implemented internal control and audit system is a premise for a correct management act, in accordance with legal provisions, as well as an assurance that the entity operates as expected and that business management is efficient.

The objectives of the internal public control and audit include objective assurance and advice, intended to improve the systems and activities of the public entity; and to support the achievement of the objectives of the public entity through a systematic and methodical approach, which will evaluate and improve the effectiveness of the management system based on risk management, control and process.

The control, internal audit and the organizational culture ensure the thematic and detailed knowledge of the economic-social realities, but it cannot be limited to that. They must make judgments of value by interpreting the states of things or realities ascertained by their continuous reporting to the objectives to be achieved, the rules set in advance or the rules of conduct. In this way, it is possible to determine the registered deviations, establishing their significance and implications, the causes that generated them, and the required measures to avoid their recurrence in the future.

The non-implementation or deficient functioning of the organizational culture, respectively of the internal control and audit system is likely to raise questions about the functioning of the entity, as well as the quality of the managerial act, especially regarding legality, economy, efficiency and the effectiveness of its activities.

The application in practice of the concept of organizational culture, through internal control and audit, proved to be more difficult than anticipated due to the following aspects:
- ✓ the tendency to bureaucratize;
- ✓ lack of practical guidelines for the implementation of the fields of activity;
- ✓ insufficient training of employees of public entities;
- ✓ resistance to change in management and employees of public entities;
- ✓ absence of sanctions in the regulatory framework.

From a theoretical point of view, the results obtained provide a perspective on perceptions of how control and internal audit should be used as a more formalized element of organizational culture. It starts from a strategy and a mission, analyzes and determines the increase of knowledge of the particularities of the institution, involves the management in its actions and offers it the diagnosis, as well as the solutions that can lead to the achievement of the desired level of performance and the established objectives.

Therefore, the internal control and audit must be integrated in the organizational culture of the institution - the culture of internal control and audit will have to change the way of approaching all situations and aspects, by:

- ▪ introducing the design of all actions in terms of objectives;
- ▪ procedural definition of all activities;
- ▪ clear definition of responsibilities at the level of each action;
- ▪ identification of risks.

The internal control and audit modalities introduced through its value system, should enjoy authority, have legitimacy and ensure the capitalization of the results.

The originality of the research consists in bringing the three concepts into the discussion of organizational culture, control and internal audit, highlighting the links and interdependence between them and the influence of organizational culture on them. In Romanian and foreign literature, these concepts have often been treated separately.

Future directions of research could be:
- ✓ determining the links between organizational culture, control and internal audit to create premises for their future development;
- ✓ more in-depth analysis of the needs of organizations in terms of the links between organizational culture, control and internal audit;
- ✓ extending the study on highlighting a link between corporate governance and organizational culture, control and internal audit.

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