

INTERNAL AUDIT – AN ESSENTIAL ELEMENT FOR THE SUCCESS OF A COMPANY

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Abstract

The report of the European Commission from October last year regarding Romania, has underlined a series of key domains in which the country still has to make progresses for the integration in the EU. The most important aspect continues to be the intensification need of the fight against corruption, which still affects numerous domains from the public life. Other important subjects underlined in the report were the harmonization request of the control mechanisms of the environment with the E.U. standards, as well as the improvement of the public purchase procedures and a better utilization of the informational technique concerning the receiving of incomes by the state.

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Although the report makes reference to the Government's obligations to promote the reform in the public services, many of these requests could be recommended as well in the private sector, which still needs considerable improvements in the work practices, aiming for the promotion of a better efficiency, the consolidation of the integrity, transparency principles, the corporatist governance and corporatist social responsibility. The change is essential if the societies want to prosper in the competitive environment which will exist after Romania will adhere to the European Unique Market. In addition, the European Union has shown an increased interest in the establishment of the standards of audit and corporatist governance, initially defined in the Eighth Norm emitted in 1984, and recently repeated through the implementation of the International Audit Standards (IAS) for the statutory audit in the European Union starting from 2005.

The internal audit (IA) is an efficient promoting manner of these objectives, being an accustomed practice in the developed countries, although up to now it has been more rarely applied in Romania. AI implies the setting up of a special department within a company, separated by the accustomed managerial structure, whose objective is that

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to ensure the respecting of the efficiency standards (procedures and controls) and of ethics at all of the company's levels, as well as the fact that the company behaves itself with responsibility in its relations with the larger community. The Department of Internal Audit (DIA), normally, reports directly to the Company's Managing Board or to the Audit Committee. The department can be relatively small consisting from two or three specialists with assistance personnel, so that the setting up of a DIA doesn't imply a significant additional bureaucracy. DIA has the authority to investigate the company's operations at all levels, but it is independent from the management, having the power only to make recommendations, which the Managing Board can accept or decline.

The Institute of Internal Auditors (IIA) with the headquarters in the United States is the international organization which establishes the standards that are at the basis of the profession at international level. IIA has defined the internal audit as being 'an objective, independent ensuring and a consultancy activity meant to add value and to make efficient the organization's operations. The internal audit helps the company to reach its objectives, contributing with a systematic and disciplined approach to the evaluation and increase of the efficiency of the risk management, of the control and of the governance processes'.

The main role of the DIA is that of promoting the company's efficiency. Having a general image of the whole structure, it can come with suggestions for a better coordination of the departments.

For instance, a DIA can observe that certain members of the personnel, employees in a certain department, have abilities which could be used successfully in another. Its recommendations could, consequently, lead to a better utilization of the personnel resources and to the increase of the contentment grade of the employees. Also, a DIA could recommend a better harmonization of the IT policy, which can contribute to a more efficient communication between the company's departments, as well as to the reduction of expenses in the purchases sector. A DIA is useful not only for its capacity to observe the company's operations at all levels, but also because an observer who is less involved in the daily routine of the department, is often capable to come with suggestions of improvement, which those directly involved in the fulfillment of some tasks could not have taken into consideration. An efficient DIA can, also, indirectly contribute to the company's development because it offers an additional guarantee to the shareholders, creditors, and regulation organs, thus, consolidating the organization's position on the market.

The second function of a DIA is that to ensure the respecting of the principles of the corporatist governance within the company. This means the respecting of the ethical standards in the practice of businesses, from the point of view of the internal procedures, as well as in the manner in which the company treats the clients and the state authorities. The corporative governance is a relatively new concept in Romania, which will have to be adopted by more and more companies from the moment in which this country will become member of the European Unique Market. The investors will want ever more to have the guarantee that the organization in which they invest respects certain healthy practices. Considering that the corporatist governance is a well established principle in the developed countries, the ignoring of this concept in the acquisition policy can affect the international reputation of an investor. In the last years, there has been a series of investors in Romania, whose image at international level suffered because, in the

activities unfolded in this country, they appeared to neglect certain ethical principles of well established businesses. Moreover, the ethical standards in investments tend to become a request in the international law. The Convention of Fighting against the Bribe concluded within the Organization for Economical Cooperation and Development (OECD) penalizes the granting of bribe by a citizen of a signatory country within another country (a principle initiated previously by the United States through the *Foreign Corrupt Practices Act*).

Romania's integration in the EU will impose further on the adoption of laws concerning the respecting of the corporatist governance standards, especially regarding the environment's protection.

In the same time, the companies recognize ever more, that the corporatist governance means much more than to generate positive relations with the public, underlining the company's commitment towards the ethical principles. The corporatist governance confers a value plus to businesses. A company that respects the integrity standards in its relations with clients and with the larger community, gains trust, a critical element in the business environment. An organization which treats it's the employees with respect, establishing in the same time some strict norms of ethical conduct for its personnel, will build a culture of team work based on loyalty and pride towards the company's standards and realizations. An efficient DIA will understand the advantages of a healthy policy of corporatist governance and will look to consolidate these principles at every level of the company.

Starting from the corporatist governance, a DIA can ensure, in the same degree, the development of a solid policy of corporatist social responsibility (CSR), which means that the organization should an active role within a larger community, passing beyond the direct relations with the clients or with the state authorities. CSR doesn't necessarily have to imply high costs it is sufficient to be only the result of an imaginative thinking, based on knowing the needs of those around us. For example, a surplus of IT equipment which has become available could be donated to the organizations that work in the community's benefit like schools, hospitals or ONG.

These activities are not expensive and can bring significant advantages to a company, increasing its reputation within the community. The sponsoring of arts is another example which illustrates the way in which the corporatist social responsibility can bring benefits to the community and, in the same time, can promote the company's image.

The Department of Internal Audit makes an evaluation of the company's activities based on a risk analysis. Starting from this evaluation, DIA elaborates an audit plan which, usually, is annual. Immediately after it is approved by the Managing Board, the plan is executed by the DIA. The Department of Internal Audit supplies then, a feedback valuable to the management and to the board under the form of internal audit reports.

These reports present the risks or observations made during the audit, and there are made recommendations for improvements.

For instance, if the organization doesn't fulfill all of its responsibilities connected with the environment, the role of the DIA is to inform the Managing Board about the risks associated to some inadequate policies and to come with recommendations regarding the best practice. The final responsibility for the implementation of the recommendations made by the DIA belongs to the management and to the Managing Board. The principle of separating the DIA from the rest of the company is especially

important, so that DIA has only a consultancy role but without having the decisional power in an official manner.

For a department of internal audit to be successful, the independence is an element of maximum importance. In Romania the profession's standards have been defined by the Chamber of Financial Auditors, that are based on the international instructions emitted by the Institute of Internal Auditors. The instructions underline the internal auditors' obligation to unfold their activity in an objective way, establishing in the same time rules for preventing the apparition of conflicts of interests. For example, an internal auditor shouldn't normally have to supervise operations for which it was previously responsible in a leading position, because this could lead to a subjective attitude. A team of internal auditors shall comprise professions that vary depending on the company that is audited, but in a typical way it will be formed from specialists in accountancy (for instance an accountant or an auditor), specialists in operations (with managerial qualifications) as well as an IT expert, considering the fact that the efficient use of the technology becomes ever more an important part of the modern commercial environment. The necessary qualifications shall depend in the last resort on the objectives of the audit department. In Romania the law requests that the head of the internal audit department to be a member of the Chamber of Financial Auditors from Romania.

As one goes along the Romanian companies start to see the advantages that result from the development and consolidation of the internal audit operations, they will also be aware of the advantages, which are offered by the consultancy offered by specialists with international experience. In spite of the name given to this practice, the internal audit doesn't have to be necessarily realized by the company's personnel. The difference from an external control consists from the fact that the observations and conclusions of the internal auditors remain confidential. One of the main advantages of involving an external consultant in the internal audit is that of an additional guarantee of independence. It is therefore much more probable that this will contribute to the development of an efficient department of internal audit, which will obtain results in the improvement of practices in the company's businesses.

An external consultant can help a company in its activities of internal audit in four main manners. Firstly, it can lead alone the department of IA, which means that the company will integrally externalize the activities of internal audit to the external consultant. Secondly, the external consultant can contribute to the setting up of an IA department, this meaning that it can employ personnel, and it can help to the establishing of objectives and the definition of the basic principles according to which the department will function. Thirdly, the external expert can help to the restructuring of the IA department, for example by making recommendations for the recruiting or professional reorientation of the personnel. And finally, the consultant can make an evaluation of the IA department from the point of view of ensuring the quality. This implies an evaluation depending on certain established reference elements and the ensuring of respecting the professional standards emitted by the Institute of Internal Auditors. The evaluation can also, imply the effectuation of a comparison between the internal audit department and the departments of other companies, as well as the examination of the manner in which these are fitted in the company's general activities.

The internal audit has become an essential component in the structure of a modern company. The internal audit ensures a bigger efficiency through a more adequate

utilization of the human and material resources, as well as a better coordination between the different departments of a company. Guaranteeing that the company respects the standards of corporatist governance, the internal audit contributes to the building of a reputation of integrity, which in its turn will help the development of relations in businesses based on trust. Also, the internal audit will offer the necessary premises so that the company would play a positive role in the community, ensuring a public image and consolidating the image of seriousness. As one goes along Romania gets closer to the moment of integration in the EU, the companies will have to develop their activities of internal audit if they want to compete successfully on the European Unique Market. The first step for many of these it will be to look professional consultancy from some experts in the field.