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Emerging Markets Queries in Finance and Business

Internal Audit and Management Entity

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Abstract

Businesses and organizations are in constant confrontation with improving their performance in an environment that provides them with all the guarantees. This improvement is increasingly sought through a decentralization of decision making to ensure appropriateness. In these circumstances, the firm's manager will normally ask questions about the effectiveness of the functioning of the organization, exercised by him and by his collaborators. In this context occur internal audit, an independent objective assurance and business advisory, intended to add value and lead to business improvement organization. In Romania, the organization of internal audit in the private sector, there are some problems with a full understanding of the necessity and advantages of this function, which is manifested by poor organization or unorganized internal audit function, even where it is absolutely necessary. Internal audit is a topical issue and of interest for companies competing in the single global market with a demand of professionals in the field, as well as youth, eager to practice and develop their skills in this career. The internal audit function within the economic entity is essential because it helps the company in achieving its objectives and adds value and transparency, assisting at the same time, the manager, to enable it to better manage their activities.

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1. Position of internal audit in economic entities structure

Internal audit function involves a company internal audit department independently developing a separate management structure, which aims to ensure that, at all levels of organization, efficiency standards are met and

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the ethical and economic entity that acts responsibly in its relationships with other members of the economic environment. Thus, organization of internal audit department in the economic entity depends on its size and the adoption of a centralized or decentralized audit.

Size is relative and consider whether the economic entity and operating on domestically or internationally. Number of internal auditors to meet the needs of the entity is determined by its size, taking into account the organizational culture, position management and internal audit criteria set by the economic entity's managers.

Thus, if a small entity may be a middle compartment from 1 to 3 people at a large national or multinational company number of internal auditors may be much higher, ranging, for example, between 10 and 100. Centralized or decentralized audit is an option on how the teams are located and used by internal auditors. Economic entity may choose to group internal auditors, according to Ghita, 2009:

- Entirely on the entity's registered office in a single team;
- In many teams each entity is autonomous units;
- Combined in the case of large national and multinational economic entities which, according objectives, internal auditors can use local teams in interdependence with a core team, which is the headquarters of the entity.

In general, the internal audit activity is organized in an Internal Audit Department, whose main tasks:

- Report directly to the Board of Directors of the company or Audit Committee;
- Has the authority to investigate the company's operations at all levels while being independent of management, whose role is primarily to promote business efficiency;
- Ensure that principles of corporate governance within the firm.

An internal audit department's assessment of the work initiated on the basis of risk analysis. The audit reports refer to the identified risks or issues observed during the audit and proposed recommendations to improve business.

Members of a team of internal audit professions will vary by company being audited, but typically will consist of specialists in economics, accountant or auditor, specialists in operations with managerial skills and an expert IT, taking into account that the effective use of technology is becoming an increasingly important part of modern business.

2. Internal Audit - Corporate Governance component

The Corporate Governance defines the whole concept of corporate governance principles, rules and regulations which provide for administration and management by managers of enterprises, in the interests of current and potential investors in those entities. It is based on an assumption that business managers are able to put in place various mechanisms to control depends on the gains for shareholders and other business partners.

Other boundaries of this enterprise governance concept as a set of rules, norms, relationships between management, board of directors, shareholders and other holders of securities, determining the structure and business objectives, the means of achieving those objectives and monitoring performance.

Modern Trends in corporate governance and codes of good practice started in the 90s in the United Kingdom, United States and Canada in response to issues of corporate performance from leading companies. In this case the added loss of perception on effective monitoring of management and its contribution to performance issues. Cadbury and Greenbury reports in the United Kingdom, the directives of the Managing Committee of General Motors in the U.S. and Dey Report in Canada have influenced each of the sources for other directives, and efforts to develop codes. In mainland Europe, the Commission recommended the establishment of Grant Operations audit committees in major French companies. France was drawn in four main reports that reports Pebereau, Vienot, Arthuis and Marini.

One of the best known bodies set up in this area, Cadbury Committee was created in 1991 after reducing the competitiveness of enterprises and large groups of English bankruptcy in the early 70s and 80s. He had to

answer a series of questions about the directors and managers responsible for financial reporting, relations between shareholders and management, the role of audit committees, financial reporting requirements. After a year, the Committee published its initial findings in the form of a code of good business conduct code of best practice. In designing control systems manifest undertaking two concepts, monistic and dualistic.

In Romania, the model recommended by the Organization for Economic Co-operation and Development OECD corporate governance has been introduced since 2007. Thus, under the Company Law, there are two forms of management / corporate governance applicable to companies limited by shares: the system unit and two-tier model.

The unitary model is observed three levels of management and execution: The first is noted General Meeting of Shareholders, the supreme governing body of the company, whose decisions taken in accordance with the law, are executive.

On the second level is the Board of Directors as constituted which are elected or, where appropriate, the executive and non-executive directors. At the third level are advisory bodies working industry focused on the management board may be, such as Audit Committee, Committee for determining pay, etc., consisting of non-executive directors.

In accordance with the provisions of company law, the Board may establish advisory committees composed of at least two board members are responsible for conducting investigations and making recommendations for the board, in areas such as audit, remuneration of directors, managers and staff auditors or nomination of candidates for various positions. Board Committees will submit regular reports on their activities. At least one member of each committee must be independent non-executive director. Audit Committee and the remuneration shall consist only of non-executive directors. At least one audit committee member must have experience in the application of accounting principles or financial audit.

In the case of companies whose shares are subject to annual financial statements a statutory requirement for financial auditing, creating an audit committee within the board of directors is required. In the system of management "dual" are a 'directorate' and a 'supervisory board." If this system does not have an auditing companies, but are subject to external audit and therefore have an obligation to organize the internal audit function. The Supervisory Board may establish advisory committees for areas such as audit, remuneration of members of the Board. In case of joint stock companies whose financial statements are intended to be auditing, creating an audit committee of the supervisory board is mandatory.

3. Audit Committee

The Audit Committee is a key to improve the quality of financial information both within the company and in relations with third parties. The principles underlying the work of this committee aims to cultivate a climate of control, meaning staff awareness of the need and usefulness of control, identify specific risks, evaluation and monitoring, identification of possible forms of control and needed, update the content and quality, stimulating providing information and communication processes within and outside the enterprise.

The audit committee must be invested with authority from the Board in order to obtain external independent professional advice, to have access to resources and information within the company to have access to discussions with any employee of the firm to lead own investigation and consult on any matter relevant external auditors.

Also, the audit committee is undertaking employment guarantor prevention projects, assuming obligations and responsibilities which are consistent with the statutory objectives, or high risk transactions, such that major harm. The Committee supervises the preparation and presentation of financial reporting, review interim and annual financial information and other information published by the organization to ensure balance and transparency. However, the audit committee monitors the work and resources of the internal control function and its relationship with the company auditor.

Monitoring internal control activity requires the audit committee supervising the quality control environment and the level of understanding by staff of the need for its risk assessment and how they are monitored, understanding and consideration of internal control procedures and internal audit reports, review and presentation of proposals by the Management Board to improve their operations and tracking resolution.

The business relationship with external auditors, the Audit Committee gives independent advice on the selection and appointment of external auditors, participating in the negotiation of fees and expresses its opinion on the competence of the persons nominated. Fall within its remit and review the auditor's financial intervention programs and evaluating the extent to which conclusions have been completed and proposals contained in its audit reports.

In Romania, in accordance with Company Law, the Audit Committee shall be constituted by the Board of Directors, members of its non-executive or outside it. Audit committee members are elected and removed by the general meeting by secret ballot.

Internal Audit Committee is the body and internal control supervising, elected by the general meeting of shareholders and that must periodically sieved report financial management of the entity elected. It responds to the law, the shareholders, as well as others who have had dealings with the group financial management.

4. Recent aspects

In October 2010, the European Commission published a document entitled „Green Paper Audit Policy: Lessons from the crisis” in which he synthesized aspects of the auditor’s role and its relations with the audited, the business environment with supervisors and society in general. European Federation of Professional Accountants FEE said in December 2010, point to the questions raised by this document.

One of question refers to relation between external auditor, internal auditor and audit committee. The answers put in evidence these aspects according to FEE, 2010:

- Frequent and effective dialogue between those charged with governance, including the supervisory board and the audit committee, and the internal and external auditors is essential in the wider context of good corporate governance as well as in the direct cooperation between the parties involved in public interest entities.
- The current functioning of audit committees is based on different practices in various countries due to the history and tradition of such bodies. The Statutory Audit Directive sets out some common principles for audit committees and their functioning, which provide guidance for the establishment and implementation of such committees across the EU Member States. Recent internal FEE analyses have shown that it is still premature to draw any conclusions about the current practice of the functioning of audit committees in a European context due to the lack of experience in a significant number of EU Member States partly brought about by the late transposition of the Statutory Audit Directive by these EU Member States.
- To further aid the establishment and effective functioning of the governing bodies, the dialogue could be further strengthened and formalized as well as the related reporting between the external auditor, the supervisory board, the audit committee, the internal auditors and with the shareholders.
- The audit committee plays a pivotal role in facilitating such communication. The starting point for such enhanced internal communication could therefore be the strengthening of audit committees and clarifying their roles and responsibilities vis-à-vis other parts of the governance structure of the entity.

5. Conclusions

The issue of the place and the role of internal audit in the entity and in the process of corporate governance remains a topical issue. In Romania, the companies must charge the main advantage of the organization of the

internal audit function: increasing their value. Moreover, the appointment of the audit committees of members from among professionals, non-executives administrators, we provide impartial support of the decision. In the same sense, companies must pay increased attention to the risk management activity. This is an attribute of the control function; internal audit entity intervenes only to determine performance. A stable and coordinated relationship between the audit committee, internal audit and external audit shall constitute a prerequisite for the provision of internal and external reporting leading to decisions with positive impact on investors and other stakeholders.

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