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Internal Audit versus Internal Control and Coaching

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Abstract

This article is not intended only as a brief parallel between internal audit and internal control but it aims to point their importance for any economic entity and moreover to point the benefits it may provide.
Based on the assumption that internal audit does not mean control and the auditors are no adversaries to an entity, it is well known that internal audit is a management assistance tool, allowing the decision makers in an entity to better manage its activities; it assesses all management resolutions meant to ensure their normal and efficient operation, and not lastly it creates added value.

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Keywords : internal audit, internal control, coaching.

1. Introduction

The research methodology we approached to carry out this paper was to analyze and systemize specialized literature and the national and international standards, issued to regulate internal audit activity.

In order to achieve the aforementioned objective we have used following research methods in frame of the present paper: qualitative analysis, by the comparison method, aimed to draw a parallel between internal control and audit; the synthesis: found in drawing the conclusions meant to explain and evaluate a situation determined, namely the limits and characteristics of the internal audit and, not lastly, documentation, as a research method in which we

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included national and international standards related to audit activities as well as analysis of the field related works published by various authors nationwide.

2. Internal audit

Generally speaking, auditing is a systematic process of objectively obtaining and evaluating information and affirmations in order to ascertain their degree of correspondence with the established criteria, as well as communicating the results to interested users. (American Accounting Association).

Auditing consists of verifying and certifying financial surveys by an independent expert in order to deliver an opinion on the comprised data materiality and accuracy. The role of auditing is to ensure data users of the compliance with accounting principles and practice as well as of a precise, clear and complete image of the company's financial status and performance, in the accounts and financial surveys. (Giurgiu A., Ungureanu P., Duma F., 2009, page 28.).

From the analysis of the audit definition, following features stand out:

a) audit is a process, a set of operations; of data collection (audit evidence), analysis and evaluation, in order to obtain reasonable assurance on compliance or not compliance of this information and statements with the established criteria.

Essentially auditing consists of;

- collecting just and sufficient audit evidence (the evidences' just character refers to the quality and effectiveness of the kind of evidence collected, whereas sufficiency refers to the amount of collected evidence) necessary to express an opinion or enunciate a recommendation.
- evaluating consistencies or inconsistencies between the different types of evidence collected;
- determining deviations from the established criteria. (Petrascu D, 2012, page 8.).

b) Auditing collates accounting policies and work procedures used in the entity with a set of established criteria, such as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), national accounting regulations, internal procedure manuals, tax regulations, and so on. In order to be useful these collations should be based on justifiable and verifiable information.

c) Auditors are competent professionals who have obtained qualifications based on exams. Data examination is not made randomly, following the auditors' intuition; it is made by following of professional standards (codes of ethical professional conduct and the 1984 Directive VII of the CCE, professional standards and technical work standards).

The auditors' conclusions are synthesized and systemized in reports, kept at disposal of the ones interested. (Oprean I., Popa I., Lenghe R.l,, 2007, page 97-98.).

In 1999, the U.S the International Institute of Internal Auditors (IIA) issued a new definition of the internal audit based on a study performed with 800 students, coordinated by auditors of Australian universities, as follows: (Joel M., Smith M. , 2006, 35).

Internal audit is an independent and objective activity, providing assurance and insurance to an organization in terms of the degree of control held over operations, it guides it to improve operations and contributes to adding value.

Internal audit supports the organization to achieve its objectives by a systematic and methodical evaluation of the risk management, control and management of the entity's' processes and by making proposals on how to strengthen their effectiveness.

Internal auditing is an independent, objectively ensuring and consulting activity, designed to create value and improve an organization's operations. It assists an organization in achieving its objectives by implementing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management and control.

To summarize: internal auditing is a profession constantly redefining itself, over the years, with the assertion to meet the incessantly changing needs of the entities, its scope shifting from analysis of accounting and financial issues to detection of the entities' main risks and evaluation of their internal control. (Jucan N.C., Sibiu, 2011, page 71).

Internal audit reviews the entity's activities and services, primarily to improve them. It leads to strict policies and procedures established by the respective entity and are not limited to financial aspects. (Jinga C., 2009, page 54).

Internal audit is (Boulescu M., 2003):

- an ongoing review of the economical entity's' activities;
- an independent assessment activity, for the entity management, by examining financial, accounting and other operations as an entirety of services;
- an assessment of duties and compliance of the records, the assets records , the capital and the results;
- an attestation or certification of financial and accounting documents.

Internal audit is a function of the control structure of the entity. It should not be confused with the internal control structure of the entity. The two departments are separate and independent, not being in a subordination relationship. (Jinga C., 2009, page 54).

The ones responsible for carrying out the internal audit, the work coordination or commitments, the signing of internal audit reports must meet the internal auditor quality. Internal auditors are permanent employees of the entity and are directly subordinate to the entity's management or to the General Shareholders Assembly. The possibility of employing specialized companies, by conclusion of service contracts, is not being ruled out.

Internal auditor (Ghiţă M., and others, as quoted. page 32.)

Advises, assists, recommends, but does not decide, his/her duty is to be a mean of improvement of each managers control on his/hers activities and on those in coordination, with the purpose of achieving the objectives.

3. Coaching

Currently, in specialized literature, the limits of the internal audit, the process itself, of finding, developing and delivering recommendations, are outdated by the coaching type consultancy. So, coaching is a modern method of exercising a new profession, of creation or intervention of new functions or, where appropriate, of new financial and non-financial services.

The coach is much more than a consultant; he/she capitalizes recommendations, studies their timeliness and usefulness, ranks them in time and space, based on the resources, making a point to balance internal and external investments, imagines strategies, designs projects and programs, establishes products/services, costs, defines the new added value and profits.

The business coaching sector distinguishes especially in times of stagnation or decline, when the vision of the entity's' management remains behind the market dynamics and evolutions, when managers are no longer able to meet market demands. Solutions in terms operational staff movement, lacking in organizational culture, or promotion of management without leadership experience proved to be palliative.

In these cases, calling up a coach, their knowledge and experience in business management, their presence, advice and direct involvement in operational processes, at times even decision making, not on the short term, but for longer periods of time may be saving solutions. (Rusovici A., Farmache S., Rusu G., 2008, page 242.)

For auditors, continuous improvement of the internal control system brings a support to their customers and reduces the audit works, since it has the effect of increasing documents and accounting records quality. In terms of auditing, the internal control system reduces routine work, mechanical checks on the accuracy of accounting and involves reason and judgment; it increases overall examination, analysis, evaluation and statistical survey. Given the existence of internal control, audit proceeds to a thorough study and an assessment in order to express an opinion of the degree of trust it may credit and, consequently, to determine the importance of the tests to which audit procedures are limited. . (Boulescu, M., Ghiţă, M., Mareş, V., 2003, page 320-321)

4. Internal control

4.1. Definition

In terms of its mission, control is an essential component of management activity and a specific human activity, serving both to management and business partners, public authorities or even the public. It is constantly evolving; improvement of economic relations and evolution of market economy cause more and more types of control to appear. In terms of control we list below:

- *internal control* – includes the entirety of controls inside the entity;

- *external control* - includes the entirety of controls regarding the entity, exercised from the outside.

The internal control system is a series of policies and procedures implemented by the entity's management in order to ensure, as far as possible, a rigorous and efficient management of its activities. This means respecting management policies, an asset protection, prevention and detection of errors and frauds, the accuracy and completeness of accounting records as well as timely establishing of financial information. (Toma, M., 2009, page 45).

As with 1999, the concepts of "internal control" and "internal audit" for public entities are introduced into the Romanian control system, which made it necessary to clarify some concepts and practices in the field.

Thus, according to O. G no. 199/1999, *on internal control and preventive financial control, art. 2*, internal control consists of all forms of control exercised in the public entity, to which it internal audit is part of; forms that are determined by management in accordance with their objectives and regulations, in order to manage funds economically, efficiently and effectively, and including organizational structures, methods and procedures.

Following the improvements to the regulatory framework a redefinition of the internal control concept and internal audit, separately, takes place. So, according to *O. M. F. P. no. 946/2005 with regard to approving the Code of internal control, including management and internal control standards for public entities and for development of management control systems, Annex 1*, internal control is a set of procedures and policies designed and implemented by the management and staff of the public entity in order to provide reasonable assurance regarding:

- achieving the objectives of the public entity in an economical, efficient and effective manner;
- following external rules as well as the management rules and policies;
- data and assets protection;
- prevention and recognition of errors and frauds;
- quality of accounting documents and timely providing credible information on the financial and management segments.

As far as companies are concerned, internal control is ruled by OMFP 3055/2009.

The main issues covered by this order refer to the fact that the entity's internal control aims to ensure (OMFP 3055/2009, section 11, point 309, paragraph 1) compliance with applicable legislation, enforcement of decisions taken by the company management, a functioning of the entity's' internal activity, reliability of financial information, effectiveness of the entity's operations, resources efficiency, prevention and control the risks of not achieving the targets etc.

As a result, internal control procedures aim: on the one hand, following the overlap of the entity's activity and staff behavior with the framework defined by applicable law, the values, rules and internal rules of the entity, and on the other hand, verifying whether accounting, financial and management information issued do accurately reflect the entity's business and situation.

Moreover, the definition of internal control as a concept is superposed with several specialized concepts of internationally recognized bodies (Ghiţă, M., Sas, F., Tamaş, A., S., Briciu, S., Ghiţă, R., Dobra, B., I., 2009, page 104.):

- according to *INTOSAI (International Organization of Supreme Audit Institutions)*, internal control is a management tool used to provide reasonable assurance regarding the achievement of management objectives.
- *Committee of Sponsoring Organizations of the Treadway Commission (USA) - COSO* defines internal control as a process implemented by the organization management, aiming to provide reasonable assurance regarding the achievement of objectives, classified in following categories: operational effectiveness and efficiency, reliability of financial information; compliance with laws and regulations.
- *The Canadian Institute of Chartered Accountants (Criteria of Control) - CoCo* defines internal control as a set of elements of an organization (including resources, processes, systems, culture, structure and tasks) that collectively helps people to achieve the organization's objectives, grouped into three broad categories: operational effectiveness and efficiency, reliability of internal and external information, compliance with laws, regulations and external policies.

The auditor should know and understand the entity and its environment, including its internal control, which requires knowledge and understanding of the following aspects (Menu, M., Afanase, C., Panaitescu, I., Vilaia, D**.,** 2009, page 78):

- the industry, the deployment and financial reporting framework;
- nature of the entity - accounting policies and their application by the entity;
- objectives, strategies and risks specific to the business;
- evaluation and review of the entity's financial performance;
- internal control.

Knowledge and understanding of internal control is used by the auditor to:

- identify possible errors types;
- to analyze the risk influencing factors;
- to develop nature, timing and extent of further audit procedures.

4.2. Objectives and key elements

Existence within an organization of an internal control system, reasonably designed and correctly implemented, is a serious presumption of the accounts reliability and of correspondence between reality and accounting data.

Basic elements of the control system are (Toma M, 2009, page 45):

a) The existence of an organizational plan that includes:

- an as precise as possible definition of tasks;
- defining limits of competence and responsibilities, which involves establishing a hierarchy with unquestionable authority
- a streamlined information flow.

b) It is essential to have a competent and incorruptible staff, especially at senior levels. Whether good or bad, decisions made by leaders do have repercussions on the departments they lead.

c) The existence of satisfactory documentation on:

- production of information: written instructions are recommended (e.g.: procedures manual);
- archiving of information: an essential element of internal control is the "memory" of a company, actually collecting every subsequent check.

The objectives of internal control are (Toma M, 2009, page 51):

a) Protection of company assets

Within the framework of this objective a number of steps may be taken, proportional to the size of the enterprise, the social form and responsibility of those who manage the patrimony.

Usually, when determining the business organization, the following is taken into consideration:

- defining responsibilities

Setting limits and responsibilities of persons dealing with property management is achieved by the act of appointment, by contract or articles of association. For other staff, powers and authorities are set, most often, in the Regulation of organization and functioning (ROF), a regulation that is to be kept up to date. All staff must have knowledge of their duties, authorities and responsibilities.

- separation of duties and functions

Separation of duties should be made in such manner as to allow control of their completion. It is preferable to avoid the situation where a person may commit an error and be able to hide it, or without another being able to disclose it.

Separation should always ensure separation of the three functions that are generally found in most companies, namely:

- achievement of the company's objectives – operational activities – such as departments and activities necessary to their exploitation;
- assets protection or conservation – departments in possession of goods or values or persons to ensure their physical protection (e.g. cashier, storekeeper etc.);
- recording or accounting of the operations - record operational activity, note the existence of assets and resources;
- description of the functions - is usually done through narrative, in the rules of organization and functioning or the statute (the SMEs') and graphically, in charts. In practice, the detailed description of the positions' functions is known as the "job description";

- procedure of empowerment - is the way to set the ones who can engage the enterprise and the different levels of verification notices required, according to the nature of the commitment to give.

b) ensuring fidelity and accuracy of accounting information

The person responsible with property management is assigned with this function, fully contributing to ensure regularity and sincerity of accounting. In the organization plan of internal control, existence of a procedure manual is recommended, to collect and group, along with other components, the organizational accounting procedures and the procedures for understanding controls' process and implementation. In the procedures manual these may be kept and referred to by those responsible for their implementation and by persons authorized to verify their implementation.

It is advisable for the procedures manual to include the following:

- the method of preparation and circulation of documents;
- organizing and keeping an accurate and up to date accounting;
- organizing an inventory of the assets and their exploitation;
- following the rules in preparation of the balance sheets;
- basic controls of the accounting activities.

c) ensuring compliance with the company's' resolutions

This objective aims to ways in which the company's' resolutions shall be achieved in an accurate and timely manner, ensuring coordination of the company's' activity.

In this respect it is necessary that all instructions, decisions, internal regulations as well as other provisions of the company to include the way, the possibilities and the staff empowered to pursue their implementation. Thus, it shall be considered to:

- perfectly confer instructions to their recipients;
- develop clear information in order to avoid misinterpretations by their recipients;
- make it possible for instructions and resources available to those in charge with their application to be the most becoming to the goal set;
- use the most appropriate procedures in reporting completion of these instructions.

d) promote effective exploatation

Long-term objectives of internal control are designed to improve the final results of the entity. By means of its organization and apprehension, internal control provides assurance on:

- recording the entirety of the entity's patrimonial movements;
- accurate and proper transposition of all records;
- protection of all company assets;
- using the same method of recording the same operation.
- following the conditions required for all supporting documents issued by the company to record its patrimonial operations;
- performing all operations in accordance with the company's' resolutions.

As shown in the paper of the author Rusovici and team: The COSO model of organization and functioning of internal control takes into consideration the managements' moral values and integrity, staff competence, eventual comparisons with other accounting standards, risks and risk management, operational objectives.

Table 1: COSO model of the internal control system

Description:	Internal control of management		
Categories:	The categories' objectives		
	Efficiency and effectiveness of operations	Accurate financial reporting	Compliance with current laws and regulations
Objectives:	Wide variety of the business	Interim and annual financial reports	Compliance with the entity's

	environment		requirements
Components:	Environmental control	Environmental control	Environmental control
	Risk management	Risk management	Risk management
	Activities' control	Activities' control	Activities' control
	Monitoring	Monitoring	Monitoring
	Information&communication	Information&communication	Information&communication

Source: Rusovici, A., Farmache, S., Rusu, G. - Manager engaged in audit – A guide to understand and apply international internal audit standards (ISA)

Financial disasters occurred in the early 2000 in the United States, especially in the giant companies ENRON, WorldCom, where executive managers Kenneth Lay and Jeffrey Skilling (first), auditor Cyntia Cooper, together with accountant Sherron Watkins (second) have embezzled millions of dollars, but also others, such as Adelphia, TICO etc., prompted the U.S. Congress, the New York stock Exchange and other regulators to establish a financial security legislation. (Rusovici, A., Farmache, S., Rusu, G., 2008, page 254-255).

For the efficiency of internal control, its elements must be consistent with the objectives of the entity, they must evolve. Therefore, should an objective change, the effects on internal control, must be taken into account. Effective internal control contributes to the success of an entity in different ways (Dănescu, T., 2007, page 219-220):

- it guides persons who manage the risks of inappropriate actions;
- it assures people to use their own creativity, by expressing their opinions;
- knowing the risks, people have the necessary flexibility to adapt to changes;
- it allows people to have reliable and timely information;
- for increased efficiency and efficacy, the entity, the organization would increase the confidence of third parties and so on.

4.3. Types of internal control

The management of the entity may implement the following internal control types (Menu, M., Afanase, C., Panaitescu, I., Vilaia, D., 2009, page 86):

- organizational control – it refers to the way personnel is organized in the audited entity, including distribution of authorities and responsibilities among staff
- the supervisory control - made by management of the entity through general supervision of its activities and monitoring the effectiveness of internal controls;
- the authorization control - aims to have documents authorized by a person who has the necessary ascendant to perform this type of control and has reviewed and verified the documents prior to authorization;
- control of the transactions carry out - intends to achieve full and proper carry out of operations;
- control intended for asset protection – is designed to provide assets security by the entitys' management;
- physical control – existence of procedures and appropriate measures to limit access to the assets of the entity is verified;
- documentary controls - provide insurance with reference to the fact that the system is being properly implemented, it offers staff a clear understanding of their duties and responsibilities and the possibility of simple transactions records;
- control of financial and accounting activity - provides insurance to the management with regard to proper recording of transactions and makes necessary corrections in the event of any discrepancy.

4.4. Limits and characteristics of internal control

One of the main concerns of managers with regard to all levels of business has been and will remain internal control. It has evolved continuously; it has changed both in concept and content. Thus, the concept of internal control was continually defined and redefined, taking into account two aspects, namely (Ghiţă, M., Sas, F., Tamaş, A., S., Briciu, S., Ghiţă, R., Dobra, B., I.., 2009, page 112):

- decentralization of activities – determines diversification of their control activities and delegation
- of competence within the same structure;
- increasing the number of provisions, standards, rules and regulations to provide the manager with means of action to appropriately use resources in order to increase efficiency.

Internal control has a number of features, namely:

- processuality - internal control is not a function but a dynamic process for the manager to use, continuously adapting instruments and techniques to changes taking place within the entity.
- relativity - internal controls do not provide absolute assurance against risks, but a reasonable assurance. Control findings should contribute to improving the company's activities and its respective cost should not exceed the benefits.
- universality - internal control is a process carried out at all levels of the company, every person is responsible for its own internal control. Also, internal control is constantly evolving, which requires adaptation to each activity in relation to the interests of the organization as well as a great flexibility since rules cannot be set for every situation encountered.

The safety level ensured by internal control may only be a reasonable one, considering its inherent limitations, subjects to:

- field of application: internal control often includes repetitive tasks and with rare occurrence exceptional operations;
- the cost of internal control: it is usually preferable that the benefits of achieving internal control to exceed its costs..
- human problems: internal control is based on the competence and confidence of those who are in charge with it but the possibility of errors or inaccuracies in its performance can not excluded.

Also, an optimal internal control system requires (Menu, M., Afanase, C., Panaitescu, I., Vilaia, D., 2009., page 87):

- a clear definition of the organizational structure;
- the existence of appropriate internal check ups;
- confirmation of the activities conducted by persons in different structures;
- use official documents to confirm transfers of goods;
- clear definition of the system to authorize transactions within specified spending limits;
- appropriate personnel expertise and clearance in order to fulfill responsibilities;
- review by the internal audit department of the internal control system functionality.

Evaluation of the internal control system along with inherent risk assessment will enable the auditor to (Menu, M., Afanase, C., Panaitescu, I., Vilaia, D. , 2009., page 88):

- an assessment of specific risk factors, generators of material errors;
- identify the types of potential errors that may appear in financial statements;
- to opt for the type of approach considered appropriate to obtain audit evidence.

5. Conclusion

As of the above, an “ without reservation” opinion results (to use a conventional audit term), namely that in order to streamline the activity of companies towards a better assets management, a cost reduction (within an organized framework), a profit maximization and achieving medium and long term objectives, any entity requires, besides control and internal audit, coaching as well. Moreover, these activities should not be viewed strictly as expenses generating activities, but also in terms of the benefits of future added value.

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