



## Capitalizing on the Valences of the Internal Audit in Achieving a Reliable and Efficient Financial-Accounting System

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**Abstract:** Manifestation of the internal audit on the financial-accounting activity means: ensuring the achievement of the established specific objectives; timely identification of risks that may occur and making recommendations for their management; streamlining the financial-accounting activity by identifying new ways of carrying out the activities faster, with less resources, with the adequate specialization of the staff and with the increase of the performances.

**Keywords:** internal audit; financial-accounting activity; reliability; efficiency; public interest entity

**JEL Classification:** M42

### 1. Introduction

The **internal audit** is strongly connected to the management of the economic entity of public interest and to the internal control systems existing and developed within them, and the results of the research approach in the field of internal audit represent an adequate support in the decision-making process to increase its performance. In the current circumstances we can say that internal audit is an important function of management that helps the entity in achieving its objectives.

However, we emphasize that the other equally important aspect of the audit, namely: counselling, advice and facilitating understanding, cannot be left out. From this perspective, the internal audit becomes the **management advisor**, without decision-making power in new projects, in activities carried out for the first time within the economic entity of public interest or in situations with a high level of difficulty and

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complexity which requires an objective opinion, unaffected by routine.

The field studied in the present scientific research “[...] is a social game, in which stakes, actors, referees, options appear” (Feleaga, 1997), consequence of the multitude of economic, social, financial, cultural factors and not only involved in the life of a public interest entity.

## 2. Literature Review

The documentation stage put us in front of several works both in the field of accounting and in the field of internal audit, usually elaborated during the ascension period of the internal audit, public internal financial control, and finally corporate governance in our country and from the international system, among the most relevant being:

The paper “*Internal audit of public institutions: theory and practice*” (Ghiță & Popescu, 2006) is a documentation developed in an analytical approach aimed at clarifying the concepts of internal audit, but also the areas it covers. Moreover, the paper has a combined approach that followed the relationships that are created between the multiple forms of audit (internal vs. external), control (internal vs. external), counselling/consulting and finally inspection. The paper also focuses on corporate governance that integrates transparency in the managerial act, but also the addition of value generated by the internal audit activity.

The paper “*Management “object” of internal audit*” (Zecheru & Năstase, 2005) exposes in a systematic approach the reconsideration of the managerial functions in complementarity with the internal audit functions, in the circumstances created by the performance concept of the economic entity of public interest.

One of the most relevant stimulating studies for the scientific study is “*Internal audit in the era of continuous transformation*”<sup>1</sup> which outlined some conclusions based on an opinion poll conducted by internal auditors in Romania, so that at the end of 2016 in Romania, out of a total number of 11,031 active economic entities, the internal audit activity was organized in a number of 8,667 economic entities, as recorded in the “*Strategy for the development of public internal audit in Romania for the period 2018-2020*”<sup>2</sup>.

During the documentation we identified a series of international works made by brand names in the field of internal audit and internal control that led our vision to a greater variety of approaches to these forms of internal control in connection with

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<sup>1</sup> Opinion poll of internal auditors in Romania, Internal audit in the era of continuous transformation KPMG in Romania, April 2019.

<sup>2</sup> <https://mfinante.gov.ro/old/pagina.html?categoriebunuri=strategia-cfpi&pagina=domenii&menu=Ucaapi>.

their functions, but also with consultancy/counselling, and the most relevant in our vision being those developed by: *Pickett S.H.K* (2005), *Sawyer L.B.* (2003), *Staciokas R. & Rupsys R.* (2005) and *Davies M.* (2009), *Brown R.*, and *Caylor M.* (2006), Gray Iain, Manson Stuart (2011), Macre Elizabeth (2010), these being only some of the specialized works in the field subject to scientific study.

The paper *Internal audit - the second part* (Păunescu, 2020) develops a series of issues related to the field of research addressed by us in this approach, namely the role of internal audit in entities that apply corporate governance, the interaction of internal audit and internal control system and not in lastly, the internal audit in a national context.

Another paper of interest is the one whose theme aims at the *Study on practices and trends in internal audit in Romania and in the world*<sup>1</sup> in which the author Chersan I., M., formulates a series of conclusions worth taking into account during this approach, between which most relevant address the expectations of economic entities towards internal audit, namely to provide new realistic business perspectives, to provide quality advice, to feel its presence in the identification, assessment and monitoring of risks, to increase the capacity of internal auditors in terms of analysis data, strategies, risk management, fraud prevention and detection, etc.

## 2. Research Methodology

The research carried out is an association between **theoretical research** in which the conceptual considerations, objectives, role, and functions of internal audit are clarified, with empirical research that evaluates the contribution of internal audit to improving the financial-accounting activity of an economic entity of public interest.

During the study, an **interdisciplinary** research was considered, regarding notions that are found in the field of internal audit, accounting, and particularities of internal managerial control.

We carried out the scientific research within the limits of the classical scientific method based on the following activities:

- *observation* through which we resorted to the description of the phenomena that manifest in the studied field, respectively the internal audit exercised on the financial-accounting activity of an economic entity of public interest in the conditions generated by the corporate governance.
- *defining the objectives of the scientific study and formulating the working hypotheses associated with them* to obtain pertinent and reasoned explanations.

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<sup>1</sup> <http://revista.cafrr.ro/ArticolRO?CodArticol=9496> February 2021.

- confirmation/refutation through practical applications of working hypotheses and obtaining new models applicable from general to.

### 3. Conceptual Delimitations Regarding the Internal Audit

Experience has shown us that the audit is still seen as a control mechanism that seeks deficiencies to highlight them to the head of the entity, although the internal audit was, is and must remain a tool of support, guidance, prevention, and improvement of the activities of any entity. It thus becomes increasingly clear that, to prevent, correct, improve, the internal audit must first verify, analyse, evaluate, and therefore know the real state of activities, processes, fields in the area subject to audit.

The audit is strongly connected with the management and internal control systems existing and developed within the entities, and the results of the audit approach are an adequate support in the decision-making process that aims to increase the entity's performance. In this context, internal audit is a management function that assists the entity in achieving its objectives.

The other equally important side of the audit cannot be left out of the discussion, namely: counselling, advice and facilitating understanding. From this perspective, the internal audit becomes the entity's management advisor, without having decision-making power, in new projects, in activities that are carried out for the first time within the entity or in situations with a high level of difficulty and complexity where objective opinion is needed., unaffected by routine.

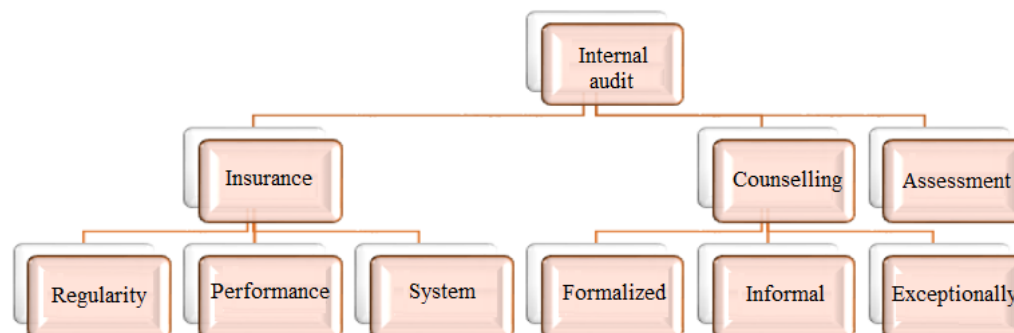
The internal public audit represents *“the functionally independent and objective activity, of insurance and counselling, designed to add value and improve the activities of the public entity; helps the public entity to achieve its objectives, through a systematic and methodical approach, evaluates and improves the efficiency and effectiveness of risk management, control and governance processes”*.<sup>1</sup>

The audit is the function of the management that must bring an increase in value within the activities carried out at the level of the entity and implicitly subject to audit. Recent but even older studies show that over time there is a phenomenon unfavourable to the image of the internal audit, namely, the confidence of the entities in the capacity of the internal audit to bring the expected added value decreases rapidly. This is caused on the one hand by the failure of regulatory authorities and methodological guidance to properly promote the importance of this area and to regulate it properly, in line with the evolution of the areas with which it connects, and on the other hand, it is caused by insufficient trust in internal auditors, who have failed to demonstrate that they can successfully support the entity's internal

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<sup>1</sup> Article 2 lit. a), Law no. 672/2002 on public internal audit, republished with subsequent amendments and completions, M.O. no. 953 of December 24, 2002.

processes, remaining stuck in the area of regularity auditing which often has a corrective and preventive role, but not brings added value to the audited activities.



**Figure 1. Internal Audit Map**

*Source: own conception*

In Romania, three types of insurance audit are approached, as follows:

- the regularity audit which assesses the observance of the principles, procedural rules, methodologies established for the management of public funds and public patrimony;

- the performance audit that ensures that the objectives set and the indicators that measure their achievement are appropriate and assesses whether the results obtained by the entity meet the pre-established targets.

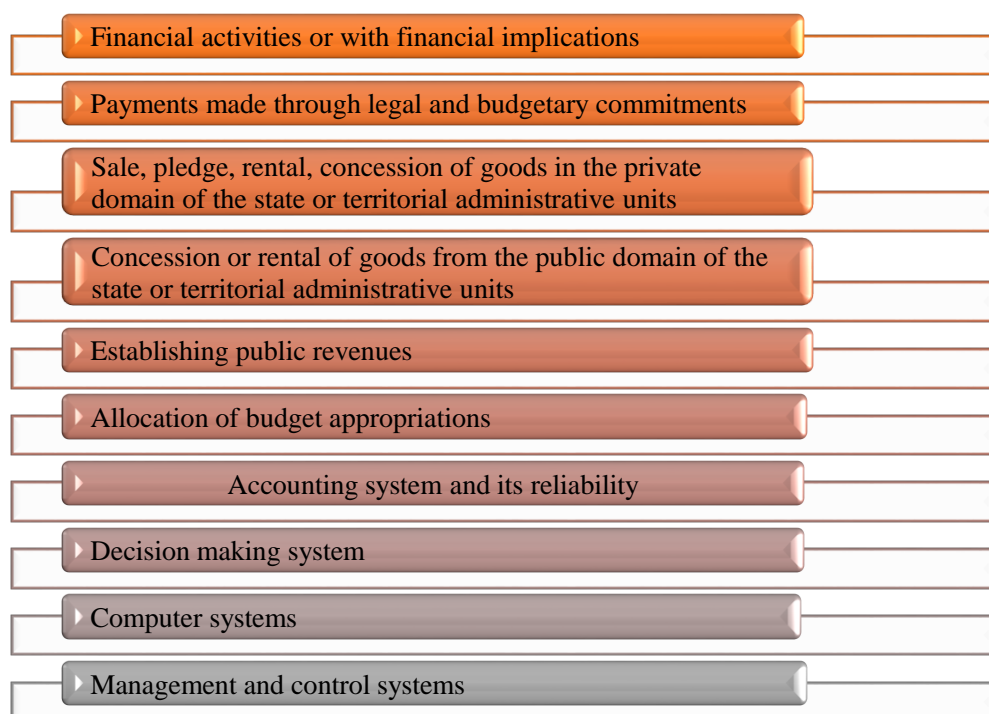
- the system audit is the combination of the other two types of audit presented above and evaluates the management and internal control system, determining whether they operate economically, efficiently, and effectively, making recommendations to address the deficiencies found. Also, the counselling activity is organized as follows:

- a formalized counselling that takes place in a planned manner and respects the methodology of conducting counselling missions;
- informal advice through participation in various standing committees or on fixed-term projects, meetings, missions, current exchanges of information or at the express request of the head of the entity; in this case, the provisions of the methodology for carrying out the counselling missions are not observed;
- in exceptional situations, the counselling activity involves participation in teams designated to resume activities because of the manifestation of force majeure or other exceptional events.

The audit is an essential tool for achieving the objectives set by the entity and when they are properly understood and used by management determines the increase of the entity's performance.

Therefore, all processes and activities within an entity are subject to audit, without exception or restriction. This raises the bar very high for internal auditors, and they must understand that it is not mandatory to know how to perform the activities in any field of activity of the audited entity, but it is mandatory to know and use responsibly and professionally the tools and techniques of audit in the evaluation of activities, in the detection of significant risks and in the formulation of reliable recommendations.

The area of internal audit includes all activities performed in the entity regardless of scope or subordination, as can be seen in the figure below:



**Figure 2. Internal Audit Area (According to Legislative Provisions<sup>1</sup>)**

*Source: own conception*

<sup>1</sup> Article 14, Law no. 672/2002 on internal public audit, republished with subsequent amendments and completions.

#### 4. Internal Audit and External Audit - Functions with Valences in Improving the Financial Accounting System

Regarding the financial-accounting system, internal audit and external audit are important factors, carrying out relatively similar activities but for different purposes, as follows:

- the role of the internal audit is to evaluate the effectiveness of the internal control system established for the organization and development of activities in the financial-accounting field;

The purpose for which the internal auditors perform such evaluations is to provide assurance to management regarding the level of operation of the audited system and to formulate recommendations or proposals for solutions to improve activities and bring added value in terms of their performance. The condition for the purpose of the internal audit to be achieved is to maintain the independence and objectivity of the auditors;

- the external audit is oriented towards the evaluation of the internal control system attached to the financial-accounting system, but its role is to obtain an appropriate set of evidence to support the audit opinion offered to management according to the agreements agreed by the contract. In fact, the opinion of external auditors is often used by third parties more than the management of that entity, but it is essential in the case of a new collaboration of the entity, for contracting international financial instruments, for promoting the real image of the entity and so on.

Similarities and differences between the internal audit and the external audit of the financial-accounting system are presented in the Table below:

**Table 1. Similarities and Differences between the Internal Audit and the External Audit of the Financial-Accounting System**

No.	Criterion	Internal audit	External audit
1.	Characteristics of auditors	Independence, objectivity	Independence from the object of activity of the entity.
2.	Object of the activity	Evaluate the internal control system	Evaluate the internal control system.
3.	Purpose	Formulates recommendations to bring improvements in the audited financial accounting activities. It focuses mainly on improving the internal control system so that it acquires the necessary	Expresses an opinion that the entity's financial statements are properly prepared, in all material respects, in accordance with the provisions of the applicable financial reporting framework in accordance with generally

		valences to properly manage the identified risks, to ensure the full and good quality of the objectives set. Formulates proposals for solutions that add value to the audited activities.	accepted accounting principles. Expresses an opinion on the entity's internal control over financial reporting.
4.	Auditors' relationship with the entity	Employees based on employment contracts or civil servants;	They are not employees of the entity but of an economic operator; the economic operator has a contractual relationship with the audit entity.

*Source: own conception*

In the financial-accounting field, which is a priority for the internal audit and the basic object of the financial audit activity, the two types of audit can cooperate to increase the efficiency of the results of the work performed by each of them. Here are just a few of the ways that have already been tested in practice and have proven effective in cooperating between internal and external audit:

- Co-opting an auditor from a financial audit firm, to increase the level of expertise of the team designated to perform a specialized internal audit;
- Request for assistance from the internal auditor in financial audit missions, to support with evidence the opinions expressed. In this situation we must mention that the external auditors assume full responsibility for the materials created by the internal audit and which they considered when formulating the opinion. In fact, the phrase according to which the external auditor is based on the activity of internal auditors is incorrect. In order not to be prejudiced in any way, the external auditor needs to perform a series of tests on his own to establish the parameters of operation of the internal control system, to highlight the effectiveness of the risk management method, to evaluate the effectiveness established forms of control, etc.;
- outsourcing the internal audit function to an economic operator whose object is financial audit.

## **5. Internal Audit - a Means of Improving the Financial-Accounting Activity, Respectively of the Financial-Accounting System**

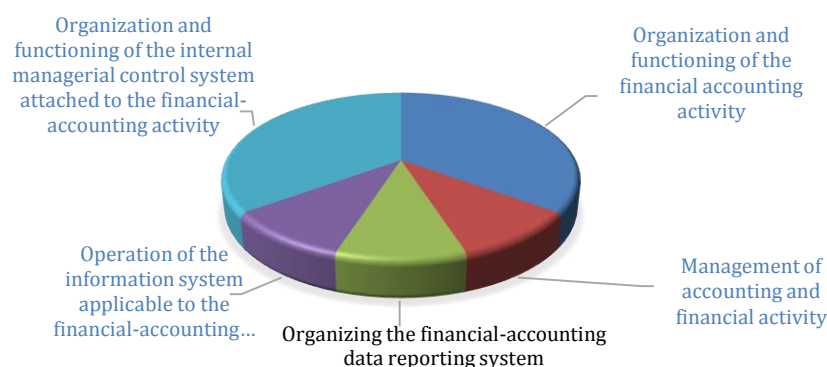
The development of the activities related to the financial-accounting system in our country, are regulated by the legislation in force, which aims to draw unitary lines for the registration of operations in the records of all economic entities of public interest. *The financial-accounting system includes all activities organized and carried out to achieve the specific objectives of the economic entity of public interest,*



*on obtaining and using financial resources in conditions of efficiency, economy and effectiveness and recording in value, in its own records, economic and financial operations appeared in connection with that entity*<sup>1</sup>.

The internal audit, as a function of evaluating the financial-accounting activity has as a starting point, the pursuit of objectives that are common to the departments that perform the internal audit at the level of economic entities of public interest.

Making an individual and not necessarily exhaustive analysis of the approach by the internal audit of the financial-accounting field, the following weights of the main objectives established for the missions of evaluating the reliability of the financial-accounting system, represented architecturally as in the figure below:



**Figure 3. Objectives of the Internal Audit in the Financial-Accounting Field**

*Source: own conception*

The purpose of the internal audit pursued by achieving these objectives is to improve the financial-accounting system. This goal can be achieved by assessing the relevant elements of that system, identifying strengths and weaknesses.

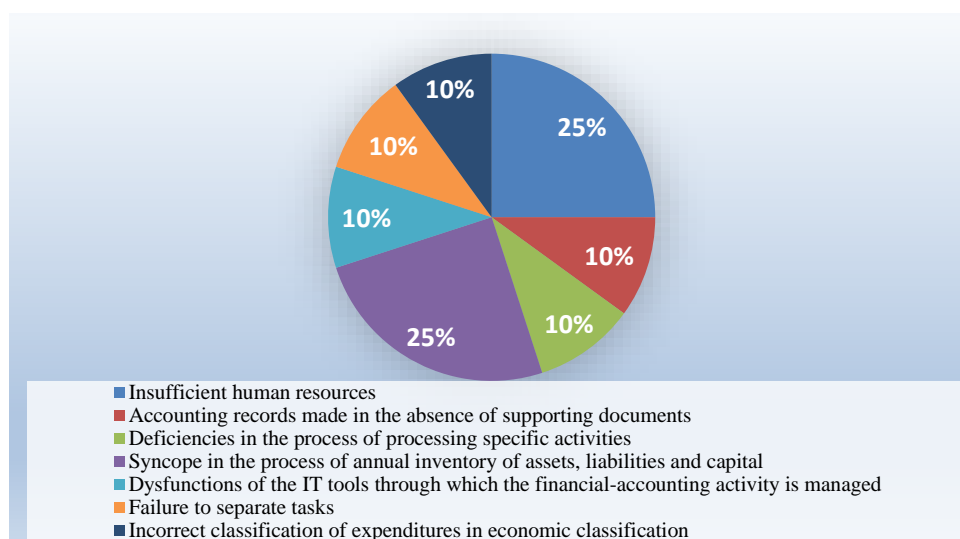
In these circumstances, the internal auditors have made recommendations which are intended to mitigate the consequences of such negative findings. For their fulfilment, but especially for those concerning:

- resizing the departments responsible for the financial-accounting activity;
- professional training of staff;
- ensuring the proper maintenance of the computer tools used or
- Purchasing such tools to meet the needs of the entity, the auditors also made an analysis of the possibilities of allocating the resources (of any kind) necessary to make the recommendations. Unfortunately, the budgetary constraints, but also the

<sup>1</sup> [http://www.curteadeconturi.ro/Publicatii/Raport\\_special\\_Audit\\_Intern.pdf](http://www.curteadeconturi.ro/Publicatii/Raport_special_Audit_Intern.pdf), March 2021.

difficulties that appeared unexpectedly globally in 2020, led to a delay in the implementation of the recommendations, with negative effects on the progress of financial-accounting activity.

In the image below we present the main negative findings, depending on the number of findings in each category.



**Figure 4. Negative Findings of the Internal Audit in the Financial-Accounting Field**

*Source: Own Conception*

## **6. Capitalizing on the Valences of the Audit in Achieving a Reliable and Efficient Financial Accounting System.**

As indicated in the previous statements, the financial-accounting system is a permanent audit concern that provides adequate information to the management of the entity about the reliability of that system, its ability to provide adequate data and information that can be used successfully in the decision-making process.

The financial-accounting system is most frequently subject to audits from various forms of control, organized inside or outside the entity. However, although it has improved considerably over time, there are invariably shortcomings in the way it organizes, conducts, and controls its specific activities. Being a data provider of maximum importance for management, it is expected that the financial-accounting system will be subject to periodic evaluations to make its adjustments and corrections in time.

The audit focuses in the first phase on the internal control system attached to the

financial accounting system, which it assesses by establishing its level of compliance with the pre-established standards. A compliant internal control system significantly reduces the involvement of the internal auditor in the detailed evaluation/verification of activities.

The internal auditor will continue his research of specific activities by using the audit techniques and tools at his disposal if the internal control system proves to be partially compliant, partially compliant limited or even non-compliant. Most of the times, the shortcomings in the compliance area of the managerial control system translate into a series of non-conformities and deficiencies in the specific activities in the financial-accounting field.

What does the internal audit propose? To bring back or bring the internal control system to the area of compliance with existing and applicable standards and resolve, through reliable recommendations, the deficiencies found, acting on the one hand corrective, repairing syncope and on the other hand preventively, preventing the occurrence of similar situations.

In the absence of internal audit, the deficiencies can deepen and can negatively mark the evolution of the expected performance of the entity, which is not at all desirable.

### **6.1. Auditing the Reliability of the Financial Accounting System**

Auditing the reliability of the financial-accounting system is an important element in the auditable area, which must be considered at least every three years by internal auditors, in conjunction with the sizing of the internal audit structure and the degree of significance of the risks to be considered when planning the multiannual and annual internal audit activity.

In an internal audit mission on this topic, the purpose of the audit is to assure the head of the entity that the financial-accounting system is properly organized and that it functions properly by providing a worthy support to be considered in the decision-making process.

To achieve such a goal, auditors set the objectives of the audit engagement as follows:

- ensuring the compliance of the effective way of carrying out the activity with the legal acts in force that regulate the financial-accounting field: inventory of assets, debts and capitals, own preventive financial control, recovery of debts; invoicing services, reception, scrapping, etc.;
- evaluation of the way of organizing the financial accounting activity;
- analysis of the management of accounting and financial activity;

- verifying the elaboration of the financial statements, from the perspective of observing the legal regulations, the compliance with the legal deadlines and the level of reporting;
- evaluation of the reporting system to management of the data resulting from the financial accounting system;
- analysis of the reliability and adequacy of the information system applicable within the entity of the financial-accounting area and its adjacent fields;
- verifying the observance of the regulations regarding the archiving of the documents used/results in the financial accounting activity;
- Evaluating the level of compliance of the internal managerial control system related to the financial-accounting system.

Obviously, the list of objectives can continue and depends to a large extent on the level of experience of the members of the audit team, on the results of the risk analysis process carried out in the planning phase of the audit missions and which reveals the areas where the risks are significant and where it is necessary to audit, from the requests received from the head of the entity or from the Central Harmonization Unit for the Public Internal Audit, the measures included in the Decisions of the Court of Accounts of Romania.

Assessing the results of audit engagements over time and which have had this theme, *“the reliability of the financial accounting system”*, we can present several relevant findings that auditors have made by applying appropriate audit methods, techniques, and tools, such as:

- insufficient procedure of the activities specific to the financial-accounting system; the absence of documented operational or systemic procedures, relevant for the proper conduct of specific activities and for the appropriate accountability of staff; lack of updating of the applicable procedures in accordance with the new legal provisions, with the structural and organizational changes that have taken place;
- inadequate dimensioning of the compartments that ensure the accomplishment of the financial-accounting activities, in relation to the volume, complexity and difficulty of the economic operations that enter the object of activity;
- insufficient specialization of staff or the fact that the level of professional training does not keep pace with the needs imposed by the requirements of the financial-accounting system; lack of time allocated to processing news in the field; inadequate organization of professional training activities;
- frequent breach of the principle of separating the function of execution from that of approval, caused by the existence of inefficient internal control and the lack of the necessary human resources;

- Defective circuit of the financial-accounting documents, with serious consequences in the observance of the terms, in the identification and responsibility of the dedicated personnel, in the observance of the legal provisions in force, etc.;
- making payments without the existence of appropriate supporting documents and without being committed, liquidated, and ordered according to the legal provisions;
- making entries in the computer program without being in accordance with the data entered in the supporting documents;

The mission of auditing the reliability of the financial-accounting system falls into the category of assurance, system missions, that includes characteristics of the regularity and performance mission;

The structured presentation of the steps, activities, the specific operations to be carried out and the documents to be completed by the internal auditors during such an audit engagement is illustrated in the Table below:

**Table 2. Stages, Activities, Operations and Documents in an Insurance, System Audit Mission**

Stages	Activities	Internal audit operations	Documents
I. Preparing the system mission	1.1. Initiating the system mission	1.1.1. Preparation of the Service Order	1.1.1.1. Service order
		1.1.2. Preparation of the Declaration of independence	1.1.2.1. Declaration of independence
		1.1.3. Preparation of the Notice on the initiation of the internal audit mission	1.1.3.1. Notification of initiation of internal audit mission
	1.2. Organizing the opening meeting	1.2.1. Conduct of the opening meeting	1.2.1.1. Minutes of the opening meeting
	1.3. Collection and processing of information	1.3.1. Establishment / updating of the permanent file	1.3.1.1. C.L.C.
		1.3.2. Information processing and documentation	1.3.2.1. Preliminary study
	1.4. Risk analysis	1.4.1. Risk assessment	1.4.1.1. Establishing the total score of risks and their ranking
		1.4.2. Evaluation of internal control	1.4.2.1. C.C.I.
			1.4.2.2. Initial

			evaluation of internal control and establishment of activities to be audited
	1.5. System mission scheduling	1.5.1. Preparation of the Internal Audit Mission Program	1.5.1.1. Internal audit mission program 1.5.1.2. On-site intervention program
II. On-site intervention	2.1. Collection and analysis of audit evidence	2.1.1. Carrying out tests and formulating findings	2.1.1.1. Tests 2.1.1.2. Checklist questionnaire; interview; Questionnaires
		2.1.2. Problem analysis and formulation of recommendations	2.1.2.1. F.I.A.P.
		2.1.3. Analysis and reporting of irregularities	2.1.3.1. F.C.R.I.
	2.2. Establishment of internal audit files	2.2.1. Document review	2.2.1.1. Centralizing note of working documents
	2.3. Organizing the closing meeting	2.3.1. Conduct of the closing meeting	2.3.1.1. Minutes of the closing meeting
III. Reporting the results of the system mission	3.1. Centralization and transmission of preliminary results of the system mission	3.1.1. Preparation of the Draft Internal Audit Report	3.1.1.1. Draft internal audit report
		3.1.2. Submission of the Draft internal audit report	3.1.2.1. Address of transmission of the Draft internal audit report
	3.2. Organizing the conciliation meeting	3.2.1. Conduct of the conciliation meeting	3.2.1.1. Minutes of the conciliation meeting
	3.3. Centralization and transmission of the results of the system mission	3.3.1. Preparation of the Internal Audit Report	3.3.1.1. Internal audit report
3.3.2. Submission of the internal audit report		3.3.2.1. Address of transmission of the Internal Audit Report	

IV. Monitoring the implementation of the recommendations	4.1. Monitoring the implementation of the recommendations	4.1.1. Preparation of the Monitoring Sheet for the implementation of the recommendations	4.1.1.1. Recommendation's implementation tracking sheet
V. Internal and external evaluation of the internal audit mission	5.1. Internal evaluation	5.1.1. Supervision of the internal audit mission	5.1.1.1. Document supervisions note
		5.1.2. Evaluating the performance of internal auditors upon completion of the internal audit mission	5.1.2.1. Performance evaluation form for auditors involved in the internal audit mission
		5.1.3. Evaluation of the internal audit mission by the audited departments	5.1.3.1. Internal audit mission performance evaluation form
		5.1.4. Annual evaluation of the individual professional performances of the auditors	5.1.4.1. Annual individual professional performance evaluation sheet / report
		5.1.5. Self-evaluation of the internal managerial control system	5.1.5.1. Questionnaire for self-evaluation of the internal managerial control system related to the internal audit department
	5.2. External evaluation	5.2.1. Carrying out evaluations by the U.C.A.A.P.I./ internal audit department at the level of the hierarchically superior economic entity of public interest, by the Romanian Court of	5.2.1.1. Documents resulting from the evaluation of the internal audit activity: audit reports, decisions, others

		Accounts, by the Audit Authority, by the European Commission and by other authorized audit organizations	
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*Source: own conception*

After completing the steps presented above, after performing the specific activities, after carrying out the operations and completing the documents related to them, an audit mission on the reliability of the financial accounting system is mandatory to facilitate the following aspects:

- to improve the aspects that fall into the category of negative findings made by auditors;
- to enhance the aspects that fall into the category of positive findings made by auditors;
- to bring benefits to the level of compliance of the internal control system attached to the financial accounting system;
- to provide the entity's manager the necessary assurance that the financial-accounting system is properly organized and functioning properly, and that its results can be used in the decision-making process, which is characterized by a high level of confidence;
- to design that framework to ensure the prevention and improvement of audited activities.

## **6.2. Internal Managerial Control System and its Influences on the Financial-Accounting System**

The internal audit assists the head of any entity in the process of identifying and assessing risks and provides advice on improving the S.C.I.M.

Among the roles of internal audit is the support it provides to the economic entity of public interest in maintaining an S.C.I.M. accordingly, by evaluating its efficiency and effectiveness and ensuring its improvement, based on the results of the risk assessment associated with all activities performed at the level of that entity.

The initial evaluation of the internal managerial control attached to the financial-accounting system that is the subject of the audit, is performed based on C.C.I., as well as the documents included in the permanent file having the role of identifying the existence and effectiveness of internal controls for each auditable activity. Internal C.C.I. is an audit tool that allows, through the questions asked and the



interpretation of the answers received the identification of the internal managerial control activities established by the management and the appreciation of their functionality.

The steps in the initial evaluation of the S.C.I.M. are:

- establishing the functioning of the auditable activities: how, who, whereby, when, with what results, etc.;
- identification of the risks associated with auditable activities, identification of the forms of control established by the entity for the proper management of risks.
- completion of the C.C.I. and identification of the existing forms of internal managerial control in the financial-accounting system, by connection with other documents collected and analysed: regulations, documented procedures, lists of objectives, job descriptions, activity reports that reveal the degree of achievement of specific objectives, etc.;
- establishing the level of compliance of the internal managerial control attached to the financial-accounting system: compliant, partially compliant, partially limited compliant, non-compliant.

The evaluation of the internal managerial control attached to the financial-accounting system is made according to a series of criteria, which following the hierarchy, positions the existing forms of control in different stages of compliance, as follows:

**Table 3. Evaluation of the S.C.I.M.**

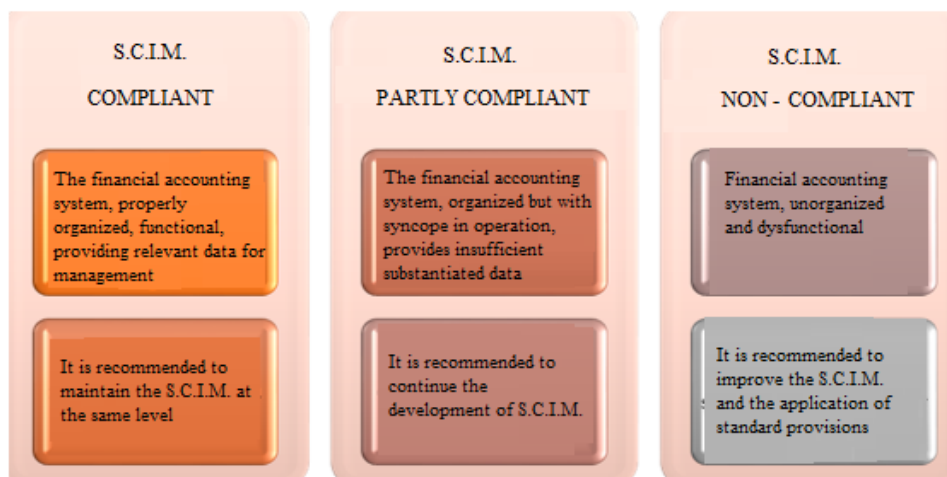
<b>Degree of conformity of the S.C.I.M.</b>	<b>Criteria</b>
<b>Compliant</b>	a) The documented procedures are correctly elaborated and applied, being used as internal control instruments, established to limit the materialization of risks in the financial-accounting field. b) The management and staff of the financial-accounting department have mastered and apply the legal provisions governing the field of S.C.I.M. c) Within the financial-accounting department, the role of S.C.I.M. was duly promoted, this being understood, accepted, and applied accordingly. d) The staff within the financial-accounting department is open and wants to use the elements of the S.C.I.M. in achieving the specific objectives and in maintaining in a tolerance zone the risks that may affect the achievement of those objectives. e) The internal managerial control is not considered a distinct activity by the staff of the financial-accounting department, it being integrated in the current activities.

	<p>f) The risk management process applied within the financial-accounting department helps to identify, assess, classify, manage risks, and monitor the effectiveness of the forms of control established to maintain risks in the tolerance zone established at the level of the entity.</p> <p>g) The financial-accounting department periodically submits to the entity's management reports on how to monitor performance and reports on the risk management process, thus providing a basis for relevant information in the decision-making process.</p>
Partly compliant	<p>a) The documented procedures developed and applied do not fully cover the activities in the list of auditable activities, leaving areas unregulated internally.</p> <p>b) The management and staff of the financial-accounting department know the regulatory framework of the S.C.I.M. but records syncope in application.</p> <p>c) The attitude of the employees of the financial-accounting department towards S.C.I.M. it is a restrictive one, there is interest for the fulfilment of the recommendations, the measures of the control bodies.</p> <p>d) The internal managerial control is partially integrated in the current activities of the employees of the financial-accounting department, being included in the list of responsibilities from the job descriptions but put into practice subjectively.</p> <p>e) Risk management is insufficiently deepened and applied in practice, the process stopping after forms of control for risk management have been established; the absence of monitoring the effectiveness of the applied forms of control, favours the materialization of the risks and prevents the achievement of the established objectives.</p> <p>f) Reporting on performance monitoring and risk management reveals insufficient staff involvement in the two major and important processes of internal management control and is a dubious source of information for management.</p>

<b>Partly limited compliant</b>	<p>a) The documented procedures are insufficient to regulate internally the financial-accounting system.</p> <p>b) The management and the personnel of the financial-accounting department did not fully master the legal framework for regulating the internal managerial control.</p> <p>c) The employees of the financial-accounting department subjectively regard the S.C.I.M., taking steps exclusively when sanctions are called into question; removing problems and improving activities are not a priority.</p> <p>d) No monitoring is performed on the application of the requirements of internal managerial control, which induces the staff employed in the financial-accounting department to treat it superficially and include it in the list of optional activities that are not part of its area of responsibility.</p> <p>e) The risk management process is not understood, and its application is done fractionally so inefficient.</p> <p>f) The financial-accounting department reports formally and unfounded on the process of performance monitoring and risk management.</p>
<b>Non-compliant</b>	<p>a) The financial-accounting activity is insufficient and inadequately processed; there is no coherence in establishing the procedural activities, there are no criteria according to which to revise the existing procedures, etc.</p> <p>b) The employees of the financial-accounting department did not adopt the provisions of the legislative framework in the field of internal managerial control.</p> <p>c) The employees of the financial-accounting department are reluctant and do not accept S.C.I.M., considering it useless and placing it in aspects of no interest to them.</p> <p>d) The employees of the financial-accounting department consider S.C.I.M. as an activity separate from those specific to one's field of activity, time, and resource consuming.</p> <p>e) The risk management process is not applied.</p> <p>f) Periodic reports on performance monitoring and risk management are not prepared and submitted to management.</p>

*Source: own conception*

According to the previous situation, the S.C.I.M. seriously affects the financial-accounting system, the latter being severely affected if the internal control system is not compliant, as can be seen in the Figure below:



**Figure 5. Influences of S.C.I.M. On the Financial-Accounting System**

*Source: own conception*

### 6.3. Connections between the Decision-Making Process and the Financial-Accounting System

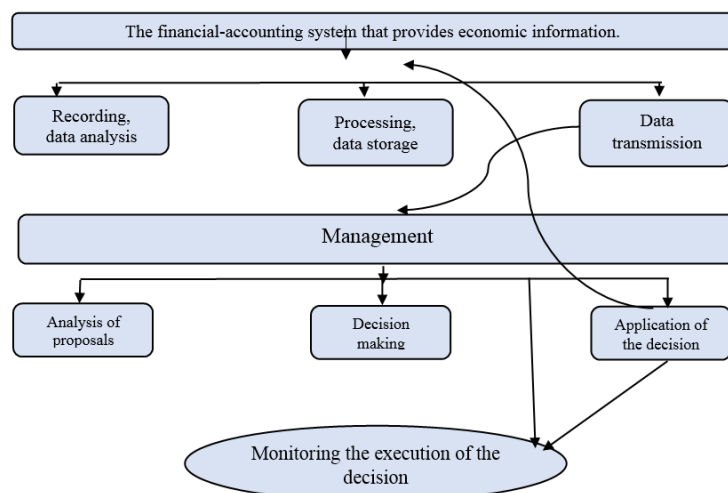
The decision-making process is closely related to the information system created within the entity, the managerial process being in fact a process of using information, the management act being performed according to the following representation:



**Figure 6. The Decision Acts.**

*Source: own conception*

The construction of financial-accounting information is based on the observation of the specific activities of an entity, the collection and storage of appropriate data, the processing of data to obtain information so that they meet the needs of users and their transmission. The importance and role of the information provided by the financial-accounting system in the decision-making process is very high because it makes the connection between the economic activities and decision-makers at the level of the entity.



**Figure 7. Connection of the Financial-Accounting System with the Decisional System**

*Source: own conception*

The financial-accounting system as a provider of financial information to management provides information that can be used in areas such as:

- managing market relations;
- managing relationships with third parties;
- budget programming;
- selection of viable investment projects;
- attracting financial resources;
- extension of the object of activity;
- strategy changes;
- Organizational and structural changes, etc.

It should not be neglected that, regardless of the relevance and consistency of the information provided by the financial-accounting system, the managerial decision is different, customized according to the abilities of each manager. When designing a new decision, the manager makes a series of quantitative and qualitative analyses that help him to define his position on the proposals coming from the economic sphere of the economic entity of public interest.

The financial-accounting system is a tool that allows the communication of economic information useful for decision making at the level of the entity.

The financial-accounting system, due to its quality of information provider for the

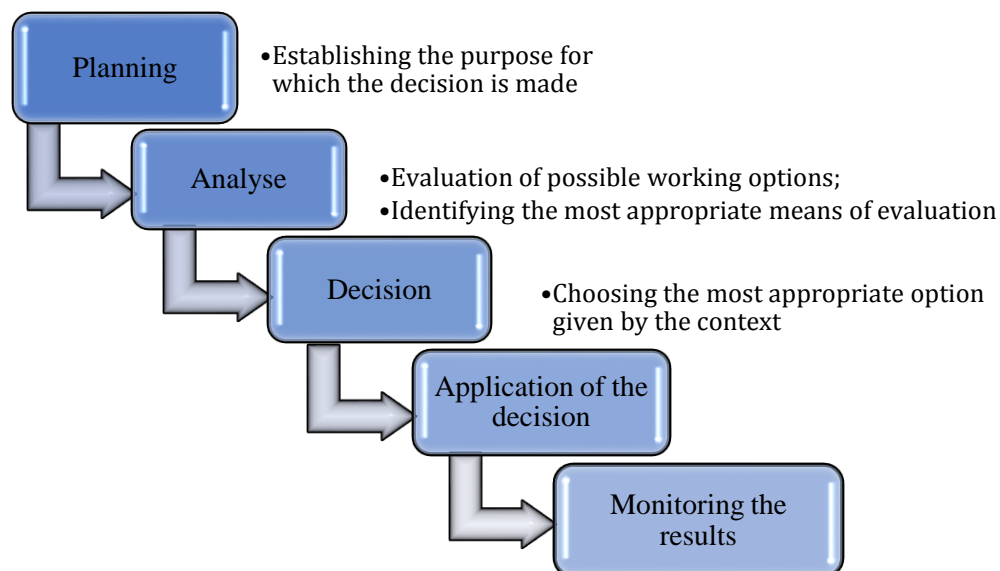
decision-making system, is characterized by the following particularities, necessary to create the most viable connection between the two systems in question:

- is a reliable, relevant, credible, verifiable information provider;
- offers a high level of completeness, of objectivity in presenting the integrated way of recording the assets, liabilities, and capitals of the entity;
- ensures the balance between revenues and expenditures programmed and realized within the entity with an impact in achieving an appropriate balance between resources and the achievement of objectives;
- operates with tools, techniques, and procedures, guided by principles that ensure on the one hand the detailed knowledge of the elements/landmarks of the entity as well as the design of the overall image of the entity from the perspective of expected performance;
- ensures the knowledge, reporting and explanation/argumentation of the financial results of the entity, at the legal terms;
- is the basis for substantiating the entity's future operating strategies.

The financial-accounting system influences the decision-making system in three of the most important constituent elements of the latter:

- in the planning phase of the organization and functioning of the entity by analysing the results of the reporting period, by assessing future development trends in relation to the influences of the internal and external environment, by identifying viable solutions for financing activities, etc.;
- in the control phase in which the management, using the appropriate levers and applying the appropriate control measures, identifies in due time the syncope in the activity, intervening to regulate the situation and eliminate the deficiencies;
- in the evaluation phase in which the management evaluates whether the decisions it has taken based on the information provided by the financial-accounting system have produced the expected effects being compatible with the purpose for which they were thought and applied.

To make the most reliable decision based on the information protected by the financial-accounting system, the manager is necessary to establish the purpose pursued, to identify the appropriate options and ways to achieve it, to choose the option considered to be optimal in the given context, to implement and monitor its application, to analyse the results and to take the necessary measures to adjust the deviations. Schematically, *the decision-making process* (Epuran, Băbăiță & Imbrescu, 2004) can be presented as in the figure below:



**Figure 8. Decision-Making Process**

*Source: own conception*

## 7. Conclusions

The internal audit is called upon to assess the financial-accounting system in its complexity and to provide the entity's management with the assurance it needs to rely on the results provided by that system.

Internal audit aims to be noted by identifying possibilities unexplored until now to bring added value financial accounting system following the mission carried out. The financial-accounting department aims to carry out activities in compliance with the legal framework for regulating the field, to pursue the successful fulfilment of the established objectives and to provide management with the support it needs in the decision-making process. From this perspective, the internal audit and the accounting financial department are necessary to develop an open, reasoned collaboration and communication, without personal interference.

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