

Role And Place of Internal Audit as an Element of the Entity's Management System

Mirela Moldovan¹, Angela Deliu²

Abstract: Information on the economic and financial activity of any organization is recorded in the separate accounting system. At the same time, the system in question cannot perform its functions efficiently without promoting an internal control, which, being rationally designed and correctly applied, contributes to ensuring the concordance between the recorded data and reality. In this context, many internal and external users may show a lack of trust in the data flows provided, because those who issue it are usually not independent of the economic facts performed, the presentation of financial reports, management decisions, etc. All these circumstances largely and rightly raise certain doubts relevant to the impartiality and objectivity of the separate data flows. Everyday theory and practice perfectly demonstrate that the knowledge by the users of the way of carrying out the economic activity represents an essential requirement of the management. Thus, in order to eliminate the suspicions from the information users, the improvement of the patrimony management method, the organization and the sustainable development of the production activity of the enterprise, it is necessary to organize an internal audit service, as an element of the entity's management system. For these reasons, in this article the author has tried to explain the role and place of internal audit as an element of the management system of the entity that ultimately contributes to understanding this activity to protect the interests of different categories of information beneficiaries, and to facilitate decision-making management based on profit criteria.

Keywords: internal audit, internal control, accounting system, internal control system, economic facts, management control centers, entity management system, management.

JEL Classification: M15; M41; M42; P51

Introduction

The accounting service cannot perform its functions without promoting effective internal control, which, being rationally designed and properly applied, contributes to ensuring the consistency of recorded and actual data (Collier & Ampomah, 2007). The optimal management of the patrimony, the organization and the sustainable development of the production activity of the enterprise in the difficult and contradictory conditions of the contemporary economic environment require a well-argued information system and a new way of monitoring the activity in the field. impossible without organizing direct management control in enterprises. As a function of management, control creates premises to ensure consistent analysis of the structure and integrity of assets, continuity of supply and the pace of production in order to use all resources efficiently. At the same time, it allows to correlate

¹ PhD student, Romania, Free International University of Moldova, Chisinau

² PhD, University of European Studies of Moldova, Faculty of Economics , Chisinau, Republic of Moldova

the balance between the necessary resources and their supply rhythm. With the help of specific information tools, this control ensures the correct sizing of the patrimonial elements and the optimization of their management process. Finally, the management control allows to know better the real situation in order to intervene preventively and operatively in order to maintain the material values at a level corresponding to the requirements of the entity. For its qualified execution a special service is necessary, the workers of which must know well the specifics of the enterprise, the economic-organizational and management structure, all the problems approached in the verification process, to possess the technique and methodology of performing the control, to be able to generalize the material obtained control, to establish ways to prevent and eliminate shortcomings or unproductive consumption, etc. (Bunget, Florea-Ianc, Ghiță, Nicolau, Pereș, 2009, p. 82; Balan, 2006, pp. 10-11). Finally, the internal audit is an independent and objective activity, which provides the entity with a degree of control over operations, guides it in improving operations and contributes to adding value to them, helps the entity achieve its objectives, assessing, through a systematic and methodical approach, the processes of risk management, control and governance of the institution, with proposals to strengthen their effectiveness (Berk, Callaly, Hyland, 2002).

Material and Method

The universal method of researching matter, phenomena and processes, ie the dialectical method of knowledge with its inalienable components: analysis, synthesis, induction and deduction, as well as the methods inherent to economic disciplines: observation, comparison, selection, served as methodological support of the investigations in the field. and grouping.

At the same time, starting from the specifics of the research topic, the theoretical concepts described in the specialized publications of scholars from the country and abroad, the fundamental conventions, the basic principles and norms and the provisions of the professional standards in the field were mainly used.

Results and Discussions

Internal audit is a coordinated set of measures taken within the organization to protect assets, ensure compliance with the provisions of management and the accuracy of data and information flows issued by the accounting system of the entity. In the literature, the notions of internal control and audit are often confused, being considered synonymous. In my view, the confusion in question is due to the different exposition of the manner and procedures for exercising them. In fact, both notions (internal control and internal audit) have many features in common, because internal audit is a component part of internal control that is exercised continuously, is not antagonistic and does not differ significantly in the way it is exercised and the purpose pursued.

For example, in the opinion of the authors Balan I., Iachim Al. and Graur E. “internal audit is an independent assessment of all aspects of the entity's activity, conducted within it and aimed at ensuring the entity's management that the accounting and internal control system are adequate and efficient (Balan, Graur, Iachim, 2021, p. 44), and internal control is a process designed, implemented and maintained by those responsible for governance, management and other personnel in order to provide reasonable assurance as to the fulfillment of an entity's objectives regarding the credibility of financial

reporting, the efficiency and effectiveness of operations and compliance with laws and regulations. applicable regulations ” (Balan, Graur, Iachim, 2021, p. 48).

At the same time, we mention that the internal audit in terms of content and methods of exercise has certain tangents with the external audit (independent). In the case of proper organization, the internal audit contributes to increasing the responsibility of the heads of production subdivisions and managers in terms of its obligations, to prevent negative phenomena in the process of economic operations, related to the flow of assets and liabilities of the company.

In addition, the results of the internal audit to some extent serve as the information base for the financial audit (Dumitrescu, 2008, pp. 129-132; Mitrea & Băncuță, 2005, pp. 15-16; Balan, 2014, pp. 151-152). The need for internal audit is clearly increasing in large and medium enterprises, being conditioned by the complexity of legislation and regulations governing the management mechanisms and economic relations of business entities with their segments, tenants, landowners, third parties and the state.

It also results from the interest of the beneficiaries in obtaining authentic information regarding the production costs, the fullness of the registration of the manufactured production, the correspondence of the quality criteria in force, the correctness of the calculation of the cost on distinct products, etc. Thus, the internal audit can be treated as the product of the market economy or part of its mechanism and represents the permanent control of the efficiency of the management of the activity of the enterprise and its subdivisions. In a general way, the interests of different information users can be called patrimonial interests (Balan, 2015, pp. 112-113). Therefore, the basic objective of the internal audit is to ensure the efficient operation of all types of activities at all levels of management, as well as to protect the legal property interests of the company and their founders. In entities, the internal audit system is usually organized in the form of an internal control service, being exercised by the auditor hired by the economic agent and subordinated exclusively to his administration (Simunic, 1980, p. 119). It should be noted that the way of organizing in a production entity depends on the size and specificity of the activity, the composition of the management team, as well as the entrepreneurial culture. This means that there is no standard model applicable to any enterprise (Ionașcu, Filip & Mihai, 2006, p. 24). One of the main functions of this service is the permanent control of the economic facts and the proposal of the solutions regarding their optimization. The internal auditor, in addition to studying the issues related to the activity of the company as a whole, also verifies:

- execution of management provisions;
- draw up various recommendations;
- analyzes in detail the production activity of the enterprise, etc.

The functions of the internal audit service depend on the information needs of the employer. The internal audit service may consist of two or three qualified auditors. Some of them may carry out the corresponding audit (establishing compliance with the regulations and regulations of the company's management), while others may verify the effectiveness of internal control, including the accounting of the production process. However, not all businesses can maintain that service. Therefore, when deciding on its organization, the correlation between the advantages and the expenses incurred for the remuneration of the auditors in question is taken into account (Ionașcu, Filip & Mihai, 2006, p. 213). At the same time, the lack of internal audit can lead to the transmission of erroneous information to the accounting and then the probative value of the accounting will be questioned. Ideally, the internal

audit service is applied in a functional manner to the management of the company. In this way, it exercises its role of preparing decisions and coordinating actions at all levels, without being perceived only as a tool of supervision by the hierarchical structure. But this situation is put into practice depending on the size of the company, namely: - in a large enterprise this control function must be positioned, in principle, in addition to its management (Dascălu, 2006, p. 107).

If the control is exercised by a structure subordinated to the accounting department, this activity may be limited to technical execution operations (eg budgeting) to the detriment of decision-making support functions. Instead, by integrating it in a hierarchical manner, it can be perceived as an instrument of supervision and sanction. That is why in a large enterprise it becomes opportune to organize the service in question in a functional form. In such a situation, the unit that will exercise the management control will be subordinated to the management of the enterprise with the role of assisting the decisions, intervening at the same time as a factor of advising the other functions of the enterprise;

- in a medium-sized enterprise, the service in question with its management control functions is very little formalized. Thus, in these conditions, the most frequent management control is organized within the accounting service. Therefore, in these enterprises the management control is ensured by the manager together with the collaborators of the accounting service of the enterprise. It should be noted that day-to-day practice in this area demonstrates that management control in small and medium-sized entities is mainly based on structuring the entity into distinct centers (eg, responsibility centers, profit centers, decision-making centers, etc.) (Tudorică, 2009, pp. 135-137). These are nothing more than units of the organizational structure that have a delegation of authority over the resources made available to them (eg material, human, financial) and an opportunity to negotiate the proposed objectives to be achieved through their use. The delimitation of the entity in such centers is made in accordance with the organizational structure which is influenced by many factors, namely: the size of the enterprise, the scale of hierarchical levels, the degree of autonomy of asset management, the degree of exercise of rules and management decisions, etc. The purpose of this de facto delimitation is the actual delegation of managerial tasks to the managers of the corresponding centers, and at the same time granting them an increased autonomy in achieving the proposed objectives is the development strategy of the entity. Thus, in general, the management control conditions the need to establish a decentralized internal structure by establishing the responsible persons at the level of each distinct center.

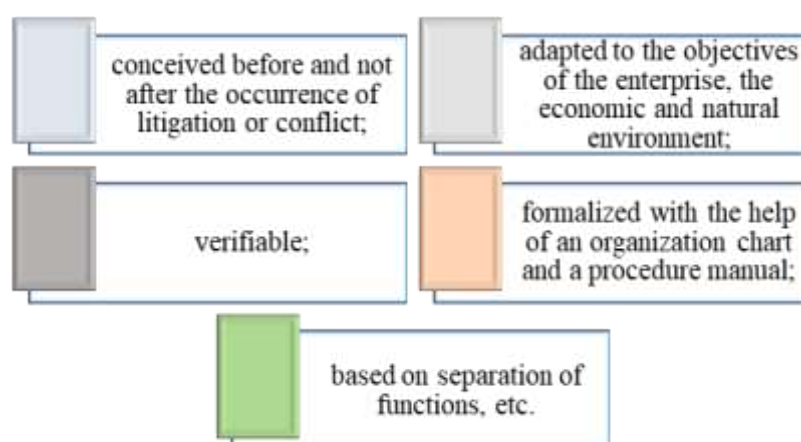


Figure 1. The objectives of the internal audit of the production process

The experience of developed countries confirms that the segmentation of the enterprise into centers by assigning them to concrete obligations to be carried out in conditions of autonomy facilitates the management process and contributes to achieving the expected performance (Collier & Ampomah, 2007; Hedges, 2006; Hedges, 2006; Simunic, 1980; Tudorică, 2009). In our opinion, the implementation of internal audit in enterprises (regardless of its proportions) will significantly change the content and quality of work of specialists and managers of production subdivisions on ensuring interest interests, will contribute to the operational improvement of primary documents and accounting records, will promote control systematically regarding the opportunity and fullness of technological operations, etc. At the same time, the organization of the internal audit is to be put on certain rules (Fig.1).

The basic objective of the production process in any field is to manufacture (obtain) finished products. Respectively, the objective of the internal audit in this chapter will be:

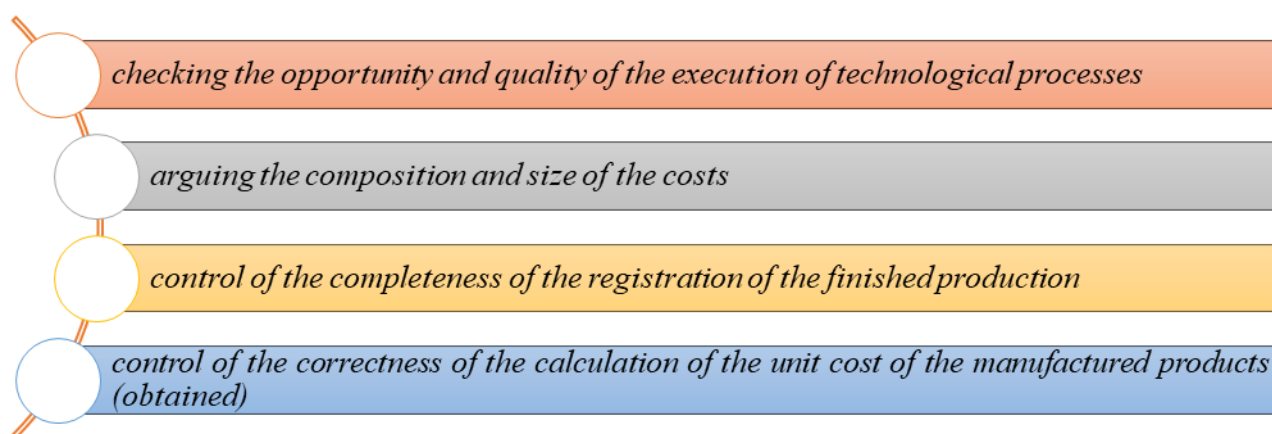


Figure 2. The objectives of the internal audit of the production process

At the first stage of the activity, the internal auditors must assess the security of internal control in the company, and all control procedures must be aimed at preventing, detecting and correcting fraud and errors that may occur in the process of recording economic operations in the accounting system. related to the manufacture (obtaining) of finished products.

Based on the selective study of this issue in the literature and the opinions of several authors (Balan, 2006; Collins & Valin, 1996; Dobroțeanu & Dobroțeanu, 2007; Drăgan, 2008; Moldovan & Balan, 2021) we propose to use the verification procedures in the following basic directions (widely used in international audit practice) with the specification of their general importance (Fig.3). As a result of the primary safety and control system safety assessment procedure, internal auditors may assess the safety (Q) of these systems as:

Q1 - low level;

Q2 - lower than average level;

Q3 - medium level;

Q4 - high level.

In order to accumulate the general data at the stage of evaluating the safety of records and the efficiency of the control of the production process, it is necessary to draw up a special questionnaire, and to determine the correctness and veracity of the consumption record control procedures (Table 2).

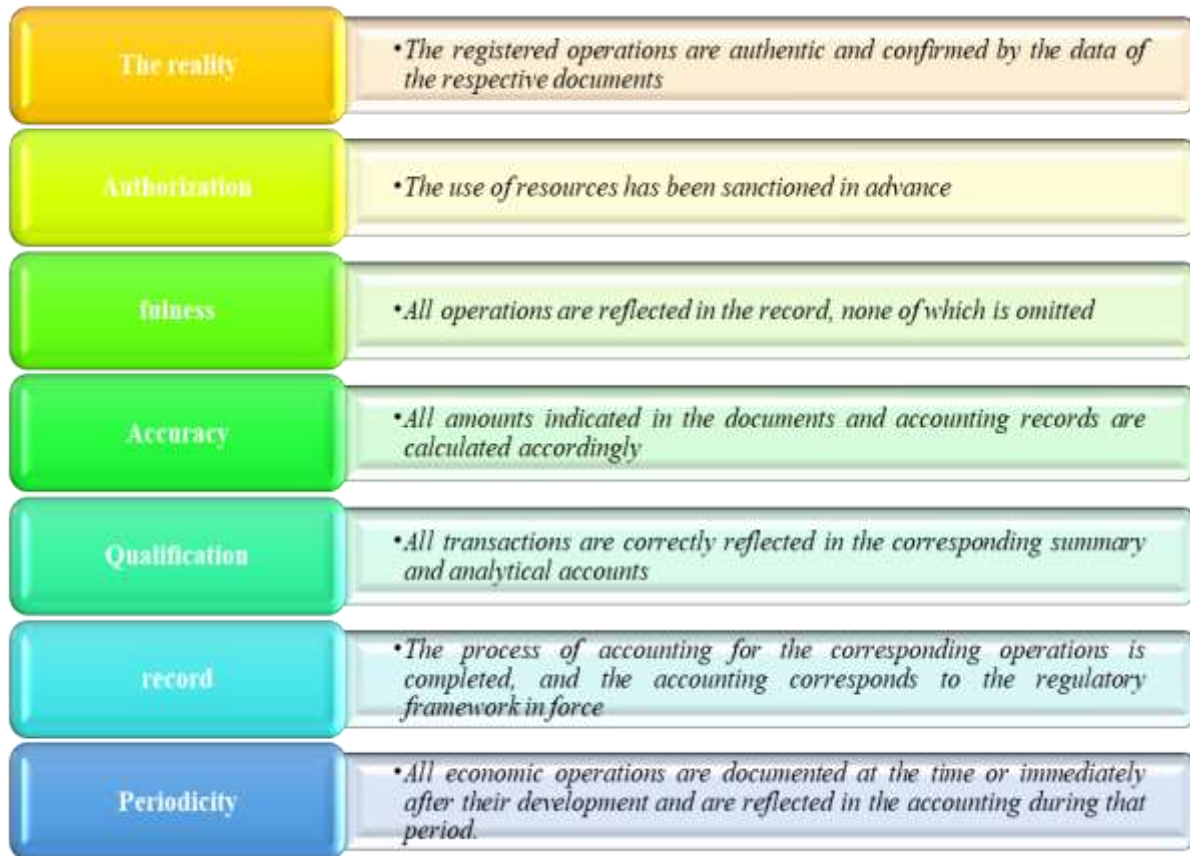


Figure 3. Directions for internal control in the production process

In order to accumulate the general data at the stage of evaluating the safety of records and the efficiency of the control of the production process, it is necessary to draw up a special questionnaire, and to determine the correctness and veracity of the consumption record control procedures (Table 1).

Table 1. Audit program of production process control procedures

Control tests	Direction of control	Control procedures
1. Carrying out the comparison of the data of the analytical evidence on technological processes with the data of the generalizing accounting register	<i>Fullness</i>	<i>Estimation, comparison, confrontation</i>
2. Proof on the production process of:		
- recalculated and verified the veracity of the totals in the register of analytical records;	<i>Truthfulness</i>	<i>Recalculation, observation</i>
- documentally confirmed the records on cost items in the analytical records;	<i>Reality</i>	<i>Examination of received documents, comparison</i>
- comparat rapoartele gestionarilor cu documentele primare;		
- indirectly confirmed the indirect production costs	<i>Truthfulness</i>	<i>observation, comparison, examination of received documents</i>
- verified the correctness of the reporting of indirect production costs on calculation objects	<i>Reality</i>	<i>Arithmetic control, observation</i>
3. Evidence to verify the compliance of the cost of materials and labor with technological norms	<i>Reality</i>	<i>comparison, analytical examination, recalculation</i>
4. Proof of:		
- compared the technological norms with the data of the primary documents	<i>Fullness</i>	<i>comparison, observation, analytical examination</i>
- verified the reflection of direct material, labor and indirect production costs starting with the preparation of the primary documents and ending with the respective notes and accounting records	<i>Fullness</i>	<i>observation, arithmetic control, confrontation, comparison</i>
5. Evidence to verify the correctness of the calculation of the cost of manufactured production	<i>Correctness</i>	<i>confrontation, analytical examination, arithmetic control, comparison</i>

We believe that the implementation of this program (which provides for the possibility of selecting control procedures) will allow more objective data to be obtained on the efficiency of control by specialists and managers of production subdivisions.

Conclusions

1. The optimal management of the patrimony, the organization and the sustainable development of the production activity of the enterprise in the difficult and contradictory conditions of the contemporary economic environment require a well-argued information system and a new way of monitoring the activity in the field direct management in enterprises.

2. The manner of control performed at the entities indicates the establishment of an organizational control, carried out in a hierarchical form by their managers and which is expressed, in fact, by supervising the achievement of the indicators predicted as a whole as well as the fulfillment of the service obligations by the heads of subdivisions. To the detriment of the obligations of the heads of subdivisions, no concrete objectives are imposed in order to obtain certain indicators of relevance,

which is insufficient for the optimal management decisions and the sustainable development of the production activity.

3. Qualified execution of the management control can be carried out through a special service - the internal audit service, whose employees must know the specifics of the company, the economic-organizational and management structure, all the issues addressed in the verification process, to possess the technique and the methodology of performing the control, to be able to generalize the material obtained after the control, to establish the ways to prevent and eliminate the shortcomings or unproductive consumptions, etc.

4. Internal audit is an independent and objective activity that provides the entity with a degree of control over operations, guides it in improving operations and contributes to adding value to them, assists the entity in achieving its objectives, and - a systematic and methodical approach, the processes of risk management, control and governance of the institution, with proposals to consolidate their effectiveness.

5. In our opinion, the implementation of internal audit in enterprises (regardless of its proportions) will significantly change the content and quality of work of specialists and managers of production subdivisions on ensuring interest interests, will contribute to the operational improvement of primary documents and accounting records, will promote systematic control over the timeliness and completeness of technological operations, etc

Bibliography

Balan, I.; Graur, E. & Iachim, A. (2021). *International dictionary of auditing terms / Dicționar internațional al termenilor de audit / Международный словарь терминов по аудиту*. Chisinau: „Print-Caro” S.R.L., p. 129.

Balan, I. (2014). Particularitățile de organizare a misiunilor și evaluarea activității de audit intern la entitățile economice/ Peculiarities of organizing missions and evaluating the internal audit activity of economic entities. *Studii economice/ Economic Studies*. ULIM. Chisinau, nr. 1, pp. 150-160.

Balan, I. (2015). Particularitățile evaluării riscurilor de control intern la efectuarea auditului independent/ Peculiarities of the internal control risk assessment when performing the independent audit. *Studii economice/Economic Studies*. ULIM. Chisinau, nr. 1, pp. 112-118.

Balan, I. & Romanciuc, A. (2006). Organizarea controlului intern/Organizing internal control. *Agricultura Moldovei/ Agriculture of Moldova*, Chisinau, nr. 2, p. 10-11.

Berk, M.; Callaly, Th. & Hyland M. (2002). The evolution of clinical audit as a tool for quality improvement. *Journal of Evaluation in Clinical Practice*, vol. 9, p. 257.

Bunget, O. C.; Florea-Ianc, Z.; Ghiță, M.; Nicolau, C.; Pereș, C., E. & Pereș I. (2009). *Guvernanța corporativă și auditul managerial intern/ Corporate governance and internal management audit*. Timișoara: Editura Mirton, p. 475.

Collier, P. & Ampomah, S. (2007). Management Accounting. *Cima Official Learning System*, p. 484.

Collins L. & Valin G. (1996). *Audit et control intern. Principes, Objectifs et Pratiques/ Internal audit and control. Principles, Objectives and Practices*. Paris: Editura Dalloz, p. 370.

Dascălu, E. & Nicolae, F. (2006). *Auditul managerial intern în instituțiile publice/ Internal managerial audit in public institutions*. Bucharest: Editura Economică, p. 237.

Dobroțeanu, C. & Dobroțeanu, L. (2007). *Audit intern/ Internal Audit*. Bucharest: Editura Infomega, p. 196.

Drăgan, P. (2008). *Auditul intern, delimitări conceptuale și limite/ Internal audit, conceptual delimitations and limits*. Bucharest: Editura CECCAR, p. 115.

Dumitrescu, D. (21-22 November, 2008). The Internal Audit. *Conferința Internațională Economia României postaderare 2 ani în UE/ Post-accession International Economy of Romania Conference*. Resita, p. 460.

Hedges, M. (2006). Risk Management. Concepts and Applications. In Krebs, G. & Mougins, Y. *Les nouvelles pratiques de l'audit qualité interne/ New internal quality audit practices*. Paris: Editeur AFNOR, p. 486.

Ionașcu I.; Filip A. T. & Mihai S. (2006). *Control de gestiune/Management Control*. Bucharest: Editura Economică, p. 272.

Mitrea A. & Băncuță A. (2005). *Audit public intern de la funcția de control la funcția de consiliere în cadrul asistenței manageriale/ Internal public audit from the control function to the counseling function within the managerial assistance*. Bucharest: Ministerul Administrației și Internelor, p. 324.

Moldovan, M. & Balan, I. (2021). Reflecții conceptuale privind activitatea de audit intern în Republica Moldova/ Conceptual reflections on the internal audit activity in the Republic of Moldova. *Tezele conferinței științifice internaționale „Promotion of Social and Economic Values in the Context of European Integration/ Theses of the international scientific conference “Promotion of Social and Economic Values in the Context of European Integration*. USEM. Chisinau, pp. 142-149.

Simunic, D. (1980). The pricing of audit services: Theory and evidences. *Journal of Accounting Research*, vol. 18, Issue 1, pp. 161-190.

Tudorică A. & Masters T. (2009). *The relationship between internal auditing and management*. Cluj-Napoca: FSPAC, p. 397.