

REQUIREMENTS OF THE MODERN ACTIVITY OF INTERN AUDIT

Ph.D. Professor **Dan IVĂNESCU**,
The Bucharest Academy of Economic Studies,
E_mail: dan_ivanescu@yahoo.com
Laura IVĂNESCU

ABSTRACT

Having been used in the beginning only in the financial and accounting activities, intern audit is used today in a large range of operational activities and also offers a wide choice of assurance and consulting services. The development of intern audit is due to the increase and extent of the deregulation, the complexity and technological development in the operating cycle, but also due to the necessity of independent ways and evaluation aims and improving risk management, leadership and control.

KEYWORDS: *audit, intern audit, standards of good practice, credit institutions.*

Intern audit is a discipline with managerial orientations that has evolved rapidly after World War II. Having been used in the beginning only in the financial and accounting activities, intern audit is used today in a large range of operational activities and also offers a wide choice of assurance and consulting services. The development of intern audit is due to the increase and extent of the deregulation, the complexity and technological development in the operating cycle, but also due to the necessity of independent ways and evaluation aims and improving risk management, leadership and control.

The Institute of Internal Auditors (IIA) in the United States of America regulates the standards of good practice regarding the intern audit that used worldwide. IIA defines the intern audit which is the objective, independent activity of consulting and assurance, meant to improve and add value to the operations of an organization. International IIA Professional Practice Standards marks the directions of the intern audit activity regarding intern auditors' aims, authority and responsibilities, their objective and independent layouts, but also fundamental guidelines of the intern audit activity's structure, the nature of working as an auditor, planning and developing tasks and communicating the results. Following the development of the intern audit activity, in 1999 IIA set a new Framework of Professional Practice, including, Standards, Practice Advisories, Development and Practice Framework, and also Institute's Ethic Code. An upgraded version of the Standards was issued in February 2001 and entered into force at January 1st 2002 and included the Performance Standards the Attribute Standards, which defines the intern auditing companies and organizations. The last upgrade for the standards entered into force in January 2004.

In the International Professional Practice Standards the requirements of the intern audit are defined as it follows:

Independence and objectivity: 1100 Standard lays emphasis on the importance of the independence of the intern audit, without being disturbed. The origins of this principle stands right in the origin of the activity, because the intern auditors were better

informed about the activity of their company than independent public auditors, but at the same time they needed to stay objective as an external auditor. The objectivity of an intern auditor enables a good collaboration between an external auditor and an internal one, so that the conclusions of the external auditor could rely on the work, analysis and results of internal auditors' tests.

The idea of the audit being independent appeared once with the strengthening of the corporate management at a global level. The financial crisis provoked by the bankruptcy of giant corporations as Enron and Parmalat, triggered important questions about handling weaknesses of the giant corporations and the first results were obtained by elaborating a code for ruling the companies by the Principles of Corporate Governance. The Principles of Corporate Governance (OCDE)¹ presents the terms of reference of the board of directors, pay scales for directors, how to avoid conflicts of interests and how to apply accounting standards, but also lays emphasis on the importance of the internal auditors' independency.

From the individual point of view of IIA Standards, the essential requirement is the personal independence of each auditor, before every audit task. In the pre-audit stage, auditors have to sign a statement of their independency of the activity/object/trial that will be audited. According to the standard, any conflict of interest must be avoided before an audit is started and it is forbidden for the auditor to take part in the audit of an activity in which she/he had direct charges over the past year.

Professional competency and conscientiousness. According to 1200 Standard, the intern auditor has to have enough knowledge for identifying frauds or finding inaccuracies in the accounting and IT departments, without necessarily being as expertise as an external auditor in these fields. Overall, an auditor has to be well informed in order to accomplish all the tasks. In order to maintain a high level of knowledge, the standard requires the auditors to always be in professional training² In their missions, the auditors have to prove their professional conscientiousness, as an external auditor would prove. In order to do so, the auditor has to be conscious of the work quantity, the importance of the audited aspects, the adequacy and efficiency of risk management processes, control and management in company, high probability for errors, irregularities and cost-benefits for the audit activity, in order to prove the effectiveness of the audit activity.

Implementing a program for assuring the quality and perfecting. 1300 Standard demands for the chief of intern auditing to implement a program for monitoring and evaluating activity efficiency in real terms both internal and external. Internal evaluations must contain a continuous supervision of activity's performance, internal evaluation held periodically by a team of internal auditors (auto-evaluations), or by company's personnel that are aware of auditing. In practice, the auto-evaluations are focalized on KPY analysis (key performance indicators) of the intern audit (number of days/human/mission; number of missions/ human; number of recommendations implemented/year etc), complying with Professional Practice Standards and sustaining the findings with eloquent proofs. External evaluations must be made at least on 5 years by qualified external teams (external audit companies). For example, in the Central European Bank System it is compulsory to report auto-evaluations at least on 2 years to Internal Audit Committee compound from the directors of the audit departments of every central bank. These requirements are relatively new, as first internal evaluation had as deadline the end of year 2006, and first external evaluation the end of 2008 for every member of the system.

A key vector of the standard is the declaration element of the consistency with the Standards. In the audit reports, the auditors should mention that the task has been achieved

¹ *OECD Principles of Corporate Governance, 2004*

² For example, a persons who is a Certified Internal Auditor, has to prove that she/he been professionally trained for minimum 80 hours in 2 years, in order to maintain the qualification.

in consistency with the international professional practice standards, only if the external audit considered that they did. If the Ethic Codeⁱ could not be respected to some extents, the impact of the audit activity must be made known to the leadership.

The next chapter is dedicated to the analysis of the intern audit statute among Romanian Banks from the complying with the international requests point of view.

Intern audit activity in Credit Institution in Romania

Intern audit activity in credit institutions in Romania is brought under the regulation of no.17/2004 Rules regarding organization and internal control of credit institutions' activity and managing significant risks, as well as the organization and carrying out the intern audit activity of the credit institutions.

In order to prepare independent evaluations of the consistency of the policies and procedures and the way in which they are respected, credit institutions must organize intern audit as a part of the supervising intern control system and evaluation of its own funds.

According to no.17/2004 Rules, intern audit activity fulfills its activity through:

- examination and evaluation of the efficiency and compliance of the intern control system;
- evaluation of the effectiveness and appliance of risk management procedures and their methods;
- evaluation of the financial and management systems, including electronic informational system and electronic system of the banking services;
- auditing financial and accounting reports;
- testing transactions and internal control specific procedures;
- application of management codes, implementing policies and procedures;
- testing the integrity, credibility and reliability of the reports;
- holding special investigations;
- evaluation of the efficiency of credit institutions operations, its tasks being:
 - Annual and quarterly Certification, with the audit report of the balance of accounts and account of budget execution, by checking if the financial and management accounting statement are complete, reliable and consistent ;
 - Examining legality, validity and regularity of the operations, identifying errors, lavishness or rip-offs;
 - Supervising the systems of taking decisions, planning, programming, organizing, coordinating, tracking and control of accomplishment decisions;
 - Evaluating economy, efficiency and efficacy on which management and execution systems manage financial, human and material resources in order to accomplish objectives and targets;
 - Identifying management and control systems' weaknesses and the risks associated and methods or solutions to correct them;
 - Analyzing economic decisions' performance in the view of:
 - Economy: minimum cost in order to be efficient;
 - Efficacy: deviation of the real effect compared to the proposed one;
 - Efficiency: finding the optimum solution by combining economy and efficacy.

The rules define directing lines for the intern audit in order with the international practices. According to Art.99, credit institutions must assure intern audit's activity independency of any other daily activities, because the intern audit activity is dependent to the board of directors. Also, the chief of the intern audit activity must return the results of

the audit to the board of directors, the audit committee and bank's financial auditors. According to Art.100, internal auditors must be objective and impartial in order to avoid and conflict of interests (as in International Standards). Also, according to Art.105 credit institutions must assure that internal auditors are competent enough to follow their responsibilities (International Standard 1200) . Finally, according to Art.113, the chief of the internal audit is in charge of the development, improving and maintaining the quality of the intern audit and supervising the program to assure this activity (International Standard 1300).

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