THE MODERN PRACTICE OF INTERNAL AUDITING IN THE CONTEXT OF GLOBALIZATION

Dragoș Laurențiu ZAHARIA¹, Luminița DRAGNE², Doina Maria TILEA³

¹National Research and Development Institute for Biological Sciences, ¹E-mail: dzaharia@yahoo.com
²Associate Professor, Ph.D, Faculty of Law and Administration, Dimitrie Cantemir Christian University, Bucharest, ²E-mail: luminita.ucdc@yahoo.com
³Associate Professor, Ph.D, Faculty of International Economic Relations, Dimitrie Cantemir Christian University, Bucharest, ³E-mail: alinat75@yahoo.com

Abstract
Internal Audit is an independent and concise activity, which provides advice to improve operations, designed to add value to an organization. [1] It helps an organization accomplish its objectives by bringing a systematic, disciplined and improving methods of risk management and resource assessment. Internal auditing is a catalyst for improving an organization’s governance, risk management and control, providing insights and recommendations based on analysis of assessment data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies as an objective source of independent advice to government. Professionals called internal auditors are employed by organizations to perform the internal audit activity.

Key words: Risk, audit, insurance, advice, control

JEL Codes: M41

1. Introduction
The scope of internal auditing within an organization is broad and may include topics such as an organization’s governance, risk management and control efficiency/effectiveness of operations, reliability of financial reporting and management, and compliance with laws and regulations.

Internal audit can also involve, conducting proactive audits to identify potentially fraudulent documents, participation in fraud investigations under the supervision of professionals and breakdown of controls and setting financial losses.

The internal auditors are not responsible for the performance of the entity, they advise general management and the Board of Administration on how enforcement responsibilities. Following their scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

The internal auditors working for government agencies (federal, state and local) for listed companies and non-profit companies. The Internal Audit Capabilities are headed by a chief audit executive ("CAE") who generally reports to the Audit Committee of the Administration Board.

2. Evolution of the audit profession
Internal Audit has constantly evolved with the progress of management science after World War II.

Aimed to improve the value of internal audit by implementing the U.S. Sarbanes-Oxley Act of 2002, the internal auditors complying with the requirements of the law. The focus of internal audit services of the entities listed on SOX-related policies and procedures detailed and visions of Larry Sawyer internal financial control have progressed into the 20th century [2].

All professional standards, independence and objectivity of the internal auditor is a cornerstone, being widely discussed in the standards and practice guidelines. Yet there is a contradiction in companies employing them: they are not independent, although professions of internal auditors are mandated by the IIA standards to be independent in any activity.

The internal auditors of listed companies in the United States are required to report directly to the Board. Independence of internal auditors in an organization is required to manage risks and to assess unlimited business management and staff. Although internal auditors are part of the management of the entity they are paid by the entity to oversee the audit being subordinated to Administrative Board.

The internal audit activity is directed primarily towards evaluation of internal control. According to COSO, internal control is defined as a process conducted by the Board of Directors of an entity to insurance reasonable assurance to the main objectives by:

• Effectiveness and efficiency of operations;
Management is responsible for the implementation of internal control standards, including five critical components:

- control environment
- risk assessment
- control activities focused on risk
- information and communication;
- and monitoring.

The internal auditors perform audits to assess whether the five key components are present and functioning effectively, and if not, make recommendations for improvement. Professional standards define internal audit function to assess the effectiveness of risk management activities of the organization. Risk management is the process by which an organization identifies, analyzes, responds, gather information and monitor strategic risks that could have an actual or potential impact the organization's ability to achieve its mission and objectives.

Under the COSO ERM strategy seeks to detect risk organization reporting operation and fulfillment of objectives. All were associated strategic business risks, negative results and results of internal and external events that inhibit the organization's ability to achieve its objectives. Management evaluates the risk in planning as part of the normal course of business activities in the areas:

- strategic planning;
- marketing planning;
- capital planning;
- budget planning;
- plan coverage payment and incentive structure;
- planning structures credit / lending practices;
- planning of mergers and acquisitions;
- planning of strategic partnerships;
- planning legislative changes;
- planning conducting business abroad, etc.

The internal auditors can help companies establish and maintain risk management processes. They also play an important role in helping companies to perform a risk assessment from the top down. In these two areas, internal auditors are usually part of the risk assessment team in an advisory role.

Internal audit was last conducted primarily through participation in meetings and discussions with Board members. Internal audit is considered one of the "four pillars" of corporate governance, the other pillars being the Board, management and the external auditor.

Internal Audit helps the Audit Committee in fulfilling its responsibilities effectively by the Council of Directors. This may include reporting critical issues of management control, suggesting questions or issues to the Audit Committee regarding meeting agendas and cooperation with the external auditor and general management. During the last years, the audit supported a formal assessment of corporate governance, especially in the Supervisory Board Risk and fraud entity.

Based on a risk assessment in an organization, internal auditors, general management and supervisory board determine where to focus internal audit efforts. This focuses on prioritizing part of the annual planning / multi-annual audit. The audit plan is usually proposed by CAE for the review and approval of the audit committee or board of directors. Internal audit is generally conducted as one or more discrete tasks. A typical internal audit assignment involves the following steps:

- establish and communicate the purpose and objectives of the audit for proper management;
- develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types, also involves review of documents and interviews, flowcharts and narratives can be created if necessary;
- describe the main risks facing the business activities in the scope of the audit;
- identify management practices of the five components of the control used to ensure each key risk, control and monitor accordingly;
- develop and execute a risk-based sampling and testing approach to determine whether the most important controls operate as destination management;
- report problems and challenges identified and negotiate action plans with management.

Audit varies depending on the complexity of the activity being audited and internal audit resources available. Internal auditors issue usually at the end of each audit reports summarizing their findings, recommendations, and any responses or action plans from management. An audit report may have an executive summary, which includes specific issues or findings identified related
recommendations or action plans and appendix information such as detailed graphs and charts or process information.

Recommendations in an internal audit report are designed to help organize atingearea effective governance, risk and control processes associated with business objectives, financial reports and management, and the objectives of legal / regulatory and compliance. Audit findings and recommendations may also be related to specific statements on transactions, such as whether the transactions audited were valid or authorized, fully processed, evaluated accurately processed in the correct time, and presented in report financial or operational, among other items.

IIA standards, an essential component of the audit process is to prepare a balanced report which provides the board of directors and the ability to evaluate the issues reported in the proper context and perspective. In providing insight, analyzes and establishes recommendations for business improvement in critical areas, auditors helping the organization achieve its goals.

Internal audit functions are primarily evaluated based on the quality and information provided by the Audit Committee. This is primarily a qualitative and, therefore, difficult to measure. “Polls”, sent to key managers after each audit engagement or relationship can be used to measure performance, with an annual survey of the Audit Committee. Understanding and expectations of senior management of the Audit Committee are important steps in developing a performance measurement process and how these measures will help to align audit function with organizational priorities.

Audit Committee Executive (CAE) typically reports the most critical issues to the Audit Committee quarterly with management progress towards solving them. Critical issues typically have a reasonable probability of causing substantial financial damage to the company or its reputation for extremely complex problems, the responsible manager may participate in the discussions. Such reporting is essential for the operation of the organization, and to expedite the settlement of such issues is a matter of considerable judgment to select appropriate problems to the attention of the Audit Committee and to describe them in context.

Part of the philosophy and approach to internal auditing is derived from the work of Lawrence Sawyer's philosophy is focused on the role of internal audit, it was the precursor of the current definition of internal audit. It emphasized and assisted management and Board in achieving the organization through audits well - reasoned evaluations and operational areas. He encouraged the modern internal auditor to act as an advisor to management, rather than as an opponent.

Auditors Sawyer saw active players in influencing business events rather than critics of errors and mistakes. He also foresaw a future audit and involvement in a stronger relationship with the members of the Audit Committee and the Board of Directors and a divorce direct reporting to the Chief Financial Officer.

3. Conclusions

Sawyer often talked about “the ability of a manager to do something right” and providing recognition and positive reinforcement, he wrote positive comments in audit reports that were rarely done. He understood and projected benefits to provide more balanced reporting while simultaneously building the best relationships. He also tried to convey in psychology the interpersonal dynamics and the need for everyone to thrive in relations of validation and recognition.

Sawyer tried to make internal audit more relevant and interesting by emphasizing on operational audit or performance.

Bibliography