



IMPLICATIONS OF AUDIT POLICY ON ECO-EFFICIENCY OF THE MICRO ECONOMIC PROCESS

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Abstract *Achieving a comprehensive analysis on the impact of audit policy on the macroeconomic process, the analysis of the level of structural and institutional development through the principles, functions and audit procedures as a basis for growth and business development.*

Keywords

Economic efficiency, eco-efficiency, audit, information technology, economic growth

1. Introduction

The audit was mentioned for the first time as common practice since ancient times as a control of payments and receipts involving public funds. Thereafter, until the sixteenth century, auditing practices aimed mainly in checking the sincerity of people who had financial responsibilities [1]. Subsequently, in the run-up to the Industrial Revolution, although the role and techniques of audit have not suffered essential procedural changes, the scope where they are applied has broadened considerably.

2. Objectives of audit policy implication on the eco-efficiency of the micro economic process

The research aims to develop coverage of the audit policy at micro economic level by reference to the principles of sustainable development and economic growth based on knowledge. By adapting audit policy principles to new trends on business development, the company will become more competitive, more efficient and more flexible. Thus, the research aims in:

- The analysis of the contribution of audit policy as the main determinant of economic growth and productivity growth at micro economic level;
- The analysis of the structural development of a company through the audit process;
- Tracking the impact of audit policy on the eco-efficiency of a company;
- Recommendations on audit policy.

3. The current stage of knowledge in the research field

After 1980 the internal audit is delimited of control

functions within the organization, because of the results it provides to management, or insurance and counseling services and becomes a separate activity with clear objectives and targets.

Currently, from our point of view, in the constitutional systems of modern states, the internal audit function is considered as one of the elements ensuring "proper management of public funds". However, this feature is also a useful and efficient tool of assessing processes to improve risk, control and corporate governance management.

Also, due to the large volume and complexity of the activities of the entity, decision makers need as accurate as possible information on the entity that they manage. In this context the internal audit is an effective tool in providing accurate information and by the means at its disposal it can eliminate possibilities of handling information and also of making erroneous decisions. An important contribution to the research of the audit field was also the one of specialist D. Matthews (2006) that in the paper "A History of auditing; the changing audit process in Britain from the Nineteenth Century to the present day" appeals to the interviewing technique and questionnaire technique aimed at obtaining information on the elements that marked the progress of the audit.

Bankruptcies of large corporations (Enron, Parmalat) and financial scandals (WorldCom, Adelphia, Qwent Communications, Global Crossing) had as repercussion, among many others the growing distrust of investors in companies' success. In this respect, to protect investors and to establish a rigorous system of internal control, internal audit within the entities has grown stronger, focusing on efficiency criteria and on

qualitative aspects of economic-financial life specific for economic organizations and for public entities. In this context, Davies M., 2001, analyzes the consequences of international events and the economic changes that occurred after failures and international financial scandals and believes that the dynamics of these changes have influenced entities and determined a change of "the role of internal audit from a function of assessment, monitoring and evaluation, to a function of insurance, of advice and of assistance to management".

In the economic vision, Angelescu et al, 2001, from the research state that the significance of the concept of audit is to "professional verify an information in order to express a qualified, argued and independent opinion based on reporting on the quality criterion".

Loebbecke JK, AA Arens, 2003 integrates the most important concepts of internal audit and also some practical aspects in a logical way, in order to understand the decision-making process in internal audit and the sampling process of audit. On the principles and practice of internal auditing, Virendra Kumar R. & S., 2006, and Millichamp AH & Taylor J., 2008 also discuss highlighting the importance and necessity of the audit report, the auditor's responsibility in reporting process and relevance of audit's opinion.

The analysis of research in the audit shows that initially most studies and theories underlying the audit were related to financial-accounting function. Implementation in the United States of the Sarbanes Oxley Act, 2002, led to a reorganization of the principles governing the internal audit function and the accelerated growth of both the profession and internal auditors' skills needed to help organizations to meet legal requirements and procedures in all areas of their activity.

Another sign of change in the internal audit was given by Nordin Van Gansberghe 2005, according to which the limited resources, the various risks and technological progress are arguments for a paradigm shift in public sector internal audit.

Also, considering that the internal audit was not considered by the agency theory as a mechanism to ensure the relationship of agent, G. Waring, 2006 in combating agent theory said that "the principal relies on auditor to provide independent and objective evaluation of accuracy of the accounting officer and give a report to know whether the results reflect the reality of the performed operations". In the same context, Charreaux (quoted by Bertin, 2007) replaced the name of the agent theory with the corporate governance and stated the place of internal audit as it follows: "The internal audit is a component of the governing mechanism of the entity".

From a management perspective, J. Saam, 2007, considers that the internal audit "supports the

management of the entity in achieving its obligations and strengthens confidence of the owners of the entity in the integrity of management and Renard J. 2006, considers that "internal audit is all that is needed to make a charge to ensure that the business has good control".

Following research conducted by Spanhove et al, 2008 Ernst & Young, 2008 and Macarius, 2009, it is estimated that the traditional approach to internal audit is associated to specific activities of internal control system evaluation. Manolescu *et al*, 2009, in the studies on the audit committee - internal audit relationship, highlights the involvement of the audit committee in monitoring the effectiveness of control systems.

The study carried out by PwC "The statute of internal audit profession," 2010, a number of 2021 participants from 55 countries, it is considered that although internal audit structures have made significant progresses and they set appropriate priorities they still need to evolve in order to reach the level of a performant internal audit function. At the same time it also argues that the management of organizations and the members of the internal audit committee consider that the internal audit function should provide more value.

Selwood J. (2011), S.Collings (2011) and Chidgey P.&Nendick S. (2011) have shown in studies conducted on international auditing standards. Selwood et al, 2011 also highlights aspects of the international auditing standards used in the UK and Ireland. Chidgey & Nendick, 2011-2012, have developed a practical guide on the implementation of auditing standards. Collings et al, 2011, within the content of the developed studies performs an interpretation of international auditing standards and submits applications on their practical implementation. A complete definition of internal audit is the one given by the Institute of Internal Auditors (IIA), 2011 an it represents "the independent and objective activity that gives an entity assurance regarding the degree of control over operations, that guides it in order to improve its operations and contributes to adding value".

A study published in the "Maximizing internal audit function" magazine, 2010, states the need of existence in practice of eight key attributes for the internal audit function to be effective, namely: (1) exploitation of the opportunities of corporate governance, (2) optimization of risk assessment, (3) developing the scope of the internal audit in order to increase the added value of internal audit, (4) improving existing skills, (5) reducing cost pressures, (6) maximizing the benefits of using technology (7) orientation to critical risks and (8) alignment of audit's objectives with beneficiaries' needs. Among some studies conducted on internal audit it has been revealed distinctive aspects, sometimes

impossible to predict given the specific cultural influence [2]; "*The past based on a centralized system that has the ability to print durable trends, as studies conducted on similar economies have shown this thing*" [3] and the fact that "the applied methodology can not be taken from other economic environments, regardless of their method of implementation" [4].

Initially, in Romania, the introduction of internal audit in the public sector did not mean harmonization of Romanian legislation with the *acquis communautaire*, since the internal audit was not developed, and in practice could not automatically translate any methodology of the EU countries given the specific of the economy and the "pioneering" conditions. In this context, the European Commission considered that our country firstly must realize a proper institutional building appropriate to achieve this function, in order to implement and develop the concept of internal audit in the public sector.

Faced with these challenges, Romania joined this process, initially through the development of GO no. 119/1999 on internal audit and financial control, which, even though not fully correspond to the requirements of the new concept of internal auditing, have founded this activity in our country, firstly establishing powers and duties for the internal audit structures. For private sector internal audit is regulated by Ordinance no. 75/1999 [5] and is the responsibility of the *Chamber of Financial Auditors of Romania*. Dobroțeanu L., Dobroțeanu CL, 2002, investigates the types of audits and theories that justify financial audit, showing that the theory of audit is more descriptive than normative, because it provides explanations of audit practices and audit procedures necessary to accomplish the purpose of financial audit.

Morariu A. Stoian F., 2008, within the developed paper makes a presentation of the organization and functioning way of the internal audit and corporate governance and presents an approach of an internal audit's mission based on international auditing standards.

Interpretation of the concepts of internal audit and internal control is performed by Domnisoru S., Vânătoru S., 2008, who makes a comparative analysis of these concepts, and of the specific implementation procedures of internal control and internal audit.

Sabau C., Nagy CM 2009, conducts a research on the need and role of audit's performance to ensure the competitiveness of economic organizations, where it presents the main elements that underpin the achievement of audit's performance missions to contribute to increasing performance in economic entities.

James D. and Co., 2010, makes the retrospective presentation of public internal audit, namely of the

evolution of the function and defines the main prospects for the future development of internal audit in the public sector.

Krishnamoorthy G., 2010, performs an analysis of the possibility of outsourcing internal audit, with presenting the advantages, and an analysis of the evolution and function of internal audit so this feature contributes to the improvement of entity's activities and to provide added value.

A contribution to the implementation of internal audit in the public sector is made by Joel M., Togo D., 2010, which presents first the concept of internal audit, the relationship between internal public audit and internal control, principles and characteristics of internal public audit, the reference framework of public internal audit, internal public audit planning, conducting a mission specific for the public internal audit. On the other hand, it presents the concept of corporate governance and the need to implement in the public sector, codes underlying the corporate governance, responsibilities of personnel responsible for corporate governance on the implementation of internal/management control and on the implementation of risk management and the role of internal audit committees in the proper functioning of the internal audit activity.

Also remarkable in this area is the comparative analysis carried out by Vasile E., Gherghelas N., 2011, from internal audit and internal public audit and whose opinion is that there is complementarity between the two functions, one that is identified by the other, differentiation is given by the regulatory framework governing them separately. G. Calotă (2011) performs a research on the implementation of audit's performance in public passenger transport system in our country and shows how planning and carrying out an internal audit mission on the financial and accounting activity, which have as their object public passenger transport activity.

Progress achieved so far, in the theoretical foundations of the internal audit are appreciated, but practical realities dynamics requires constant concern to improve internal auditors and to strengthen the function.

Also through implementation of legislative changes brought to internal audit work carried out in the public administration the function will be strengthened, will increase the responsibility of internal auditors in the carrying out audit missions and the results will be commensurate with the extra added value brought to the activities of the entity.

Regarding public accounting in the specialty literature of our country, interest has increased, especially in recent years, amid the changes that have taken place in this field. Among the experts who researched and published in this field include: Profiroiu 2006: Mateș D., et al. 2007, Apetrei A. 2008, Dumitru M., Pitulice I.C.,

Calu D.A., 2009, Lazăr D.T., Inceu A., Moldovan 2009, Manea I., Dumitrescu A., 2009, Alecu G., 2012, Tiron Tudor A., 2010, Ristea M., Jianu I., 2010, Man M., Vasile E., 2010, Popescu M., Hințea C.E., 2011, Popescu P., 2011, Radu M., 2011, Calu D., Pitulice I.C., 2011.

Some experts in the field recognize the existence of problems concerning the adoption of accrual accounting in the public sector (Alec 2012) considering the multitude of factors that must be considered as well as the lack of specialized staff in this regard. There are also opinions considering that the introduction of accrual accounting rules and the rules on program budgeting are applied "as requested" not because reality imposes them (IC warbler, 2013).

4. Conclusions and suggestions

- Good functionality of the audit policy leads to increased eco-efficiency of a company;
- Development of audit policy in Romania, with microeconomic structural policies can lead to increased business efficiency in terms of sustainable use of resources.

To achieve the set proposals it is proceeding to the collection, processing and analysis of complex data belonging to a wide range of areas such as management of entities, internal audit, finance, accounting, internal controls, corporate governance, risk management.

Please note that any research, whether it is directed towards the establishment of new theories, whether it is designed to verify the practical application of theoretical aspects can be classified into two categories, namely: (1) inductive research from practice to theory (2) deductive research, from theory to practice. From theoretical point of view, these mentioned research methods coexist, and in practical terms we witness their interrelation. The exclusivity of one or the other in the moment of implementation is difficult to establish due to the interdependencies that exist between theory and practice in the general. There are no theories based on a minimum of practical data, as there are no empirical studies that do not start from a minimum of theoretical information.

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