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Research Paper

THE IMPORTANCE OF INTERNAL AUDIT IN ROMANIA

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ABSTRACT

To try to modernize financial management both in the public and private sector in Romania was recently introduced internal audit principle. In other words Romania began to implement European requirements by switching from external supervision and inspections based on complaints, an internal control decreased the risk management objectives affecting the institution.

Thus defined two notions namely public property and public fund.

In this paper I present the importance of internal audit in Romania. Romania audit is extremely important because it can help institutions to streamline their process and performance. Experience auditors is important in achieving the desired results.

KEYWORDS: European Union, internal audit, romania

INTRODUCTION

The term audit comes from the Latin word for auditing auditing, which has the meaning "listen", but about the time audit speaking Assyrians, Egyptians, during the reign of Carol cel Mare or of Edward I of England. Audits were carried out over time in Romania, wore other names.

The term audit in the sense used today is relatively recent and place during the economic crisis of 1929 in the United States, when businesses were affected by the recession and had to pay large sums for external auditors who were certifying the accounts of all listed companies the stock exchange. Great American enterprises already using services of external audit offices, independent bodies which had the mission of checking accounts and balance sheets and certified final financial statements.

To fulfill its mandate audit firms conducted a series of expert preparatory work, namely: property inventory, inspection of accounts, checking balances,

various polls etc., which have significantly increased audit costs.

Enterprises are beginning to organize their own offices Internal Audit, in particular to reduce costs by taking conducting preparatory work within the entity, and for carrying out the certification appealed further to the Cabinet of External Audit, which had the right to a supervision business activity.

To distinguish between external auditors and the audit offices of the organization audited, they were first appointed external auditors, and the latter were appointed internal auditors because they were part of an enterprise. These changes were not beneficial because the external auditors start their work from scratch and start from the statutory auditors' reports, which adds new findings by the application of specific procedures and then the certifying organization's accounts audited.

Over time, external auditors have given up entirely from operating activities of inventory and inspection of customer accounts and began to realize analyzes, comparisons and justify the reasons of failures, offer advice and solutions for those who were responsible for the business. In this way, over time, we have set targets, tools and techniques and different reporting systems for internal auditors versus external auditors.

After passing the economic crisis, auditors have been used further as acquired the necessary knowledge and techniques and tools used financial accounting. While they have always extended the scope of the audit and they shifted, leading to the necessity of the existence of a function of internal audit activity within the organization.

The new internal audit function will keep long financial accounting connotations in the collective memory, thanks to its heredity or certification activity accounts.

The role and the need for internal auditors has increased continuously and was widely accepted, which is why they felt the need to organize and standardize practice.

Thus, in 1941, it was established in Orlando, Florida, USA, the Institute of Internal Auditors, which has been internationally recognized.

Later, he joined the UK and in 1951 Sweden, Norway, Denmark and other countries.

Currently, this institute were affiliated with 90 national institutes of internal auditors and members from over 120 countries, after obtaining the quality of CIA - Certified Internal Auditor granted by the IIA, based on professional exams.

The internal audit function has been established in England and France in the early 1960s was strongly marked by its origins financial control and accounting.

Only after years 1980 -1990 internal audit function is taking shape in entities activity and its evolution continues today.

In Romania, the internal audit was adopted as a fashionable term financial control, but with time they managed to settling the concepts of internal control and internal audit. Currently, there is a problem with understanding the internal control system, which is subject of internal audit, internal control includes all activities carried out within an entity and the associated risks.

Internal audit is an independent and objective functional activity, giving assurance and advice to management for better management of revenue and expenditure, perfecting activities of the public entity. However, internal audit helps the entity to achieve its objectives through a systematic and methodical approach to assessing and improving the efficiency and effectiveness of management based on risk management, control and governance processes.

Internal audit applies to all entities, regardless of the size and nature. Regarding the public sector, we can say that it adopted progressively internal audit as it goes public institutions to efficacy, safety and quality. It is therefore necessary to define the concept of internal audit.

If we are talking of national regulations, they have lacked until 2000 regarding internal audit, this activity is not acknowledged institutions and companies. This is due to the confusion caused by public sector internal audit considers only specific private sector. Because ownership of the European Union and the application of International Accounting Standards, Ministry of Finance introduced legislation simplistic internal audit in 2000 by controlling and monitoring the auditors of the Chamber of Auditors.

Public audit in Romania is regulated by Law 672/2002, Law on public internal audit, published in the Official Gazette, Part I no. 856 of December 5, 2011, after being amended by:

- Government Ordinance no. 37/2004 amending and supplementing regulations no. 91 of January 31, 2004, approved by Law no. 106/2004 published in the Official Gazette of Romania, Part I, no. 332 of April 16, 2004;
- Government Emergency Ordinance no. 35/2009 regulating certain financial measures personnel expenses in the public sector, published in the Official Gazette of Romania, Part I, no. 249 of April 14, 2009, approved with amendments by Law no. 260/2009 published in the Official Gazette of Romania, Part I, no. 484 of July 13, 2009;
- Law no. 329/2009 on the reorganization of public authorities and institutions, rationalization of public expenditure, business support and compliance framework agreements with the European Commission and International Monetary Fund, published in the Official Gazette of Romania, Part I, no. 761 of

November 9, 2009, as amended and supplemented;

- Framework Law no. 284/2010 regarding the unitary remuneration of personnel paid from public funds, published in the Official Gazette of Romania, Part I, no. 877 of December 28, 2010, as amended.

In 2011, Law 672/2002 amended by Law 191/2011 amending and supplementing Law no. 672/2002 on public internal audit, published in the Official Gazette of Romania, Part I, no. 780 of 3 November 2011. Following these amendments Law 672/2002 was republished in the Official Gazette, Part I no. 856 of December 5, 2011, giving a new numbering.

Law no. 672/2002 on public internal audit and GO no. 37/2004 amending and supplementing regulations on internal audit was regulated internal audit of public entities, on the formation and use of public funds and public property management as an activity functionally independent and objective. Art. 2 letter Law 672/2002 defines public entity: public authority, public institution, company / national company, autonomous administration, in which the state or an administrative-territorial shareholder and having legal personality and financed entity in proportion over 50% of public funds.

In Romania, public sector internal audit, in structural terms, is organized as follows:¹

1. Central Harmonization Unit for Public Internal Audit (CHUPIA);
2. Internal Audit Committee (CAPI);
3. Internal audit departments of public entities.

Central Harmonization Unit for Public Internal Audit (CHUPIA) was established within the Ministry of Finance, reporting directly to the Minister and is divided into specialized services.

CHUPIA is headed by a director general appointed by the Finance Minister, with the approval CAPI. The Director General is a civil servant and must be highly professional in finance and accounting and / or auditing professional competence appropriate and comply with the Code of Ethics of internal auditor (Article 7 of the (3) of Law 672 / 2002).

Among the main tasks of CHUPIA we can include²: develop, lead and implement a unified strategy in the field of internal audit and monitoring nationally this activity; developing a legal framework on public internal audit; Developing and implementing uniform procedures and methodologies based on international standards, including internal audit manuals; develop methodologies in the field of risk management.

The second body that is part of the internal audit structure is the Committee for Public Internal Audit (CPIA). It is attached to the Central Harmonization Unit for Public Internal Audit (CHUPIA) and has advisory status whose role is to work towards defining strategy and improve internal audit activity in the public sector.

Internal audit department organizes public entities through public institution or care manager, for other public entities, the governing body must ensure collective organizational and functional framework necessary for carrying out internal audit.

Small public institutions, not subordinated to other public entities, public internal audit is limited to regular audit and carried out by the internal audit departments of the Ministry of Finance.

Central public entities whose managers are the main credit and manages a budget of up to 5,000,000 and have established an internal audit department, the audit is conducted by the Ministry of Finance, through CHUPIA based on a cooperation protocol.

The head of the public entity subordinate or under coordination or authority of another public entity establish and maintain a functional department of internal audit, with the consent of superior public and if this agreement is not given, the audit entity is carried out by department of public audit internal public entity that decided it. Department of Internal Audit Service is directly subordinate to the management of public entity and, through his duties should not be involved in developing procedures for internal control and internal audit activities subject.

But such national arrangements but also had many shortcomings such as:

Although there were numerous weaknesses and reproach to those acts they had a clear role in the separation of its entire internal control, internal audit and preventive financial.

Internal control and external audit two concepts are not mutually exclusive, they rely on methods, techniques and procedures largely the same.

From our point of view, internal control plays a key role in the integrated management of the entity, which lays the foundation for risk management assumptions that may arise in the conduct of any public institution; implementing procedures for exercising the powers and responsibilities of each can engage execution and management; planning activities and resources to achieve the objectives of the entity, etc.

Initially, assumed control reunion conditions related to the non ambiguous objectives, the ability to

measure results, the ability to predict the effects of corrective action and the cyclical nature of the activity.

Gradually realized the complexity of the circumstances in which control is performed because of the complexity of the environment in which it is organized and exercised. So after joining the European Union Romania had to implement the *acquis* in the field of internal audit.

With regard to secondary legislation in this area were developed General Methodological Norms regarding the exercise of the internal audit that, in a separate section, include the methodology for determining the level of risk and rules counseling management that internal audit supports its identification and in-depth knowledge of internal systems, so necessary line management, which is responsible for implementing them.

Also, the auditor's status was regulated by the principle of independence, both the Internal Audit Charter, Code of Ethics for internal auditors and the professional rules applicable in Romania.

Analyzing the current state of implementation of internal audit in the public sector we conclude that Romania is on the right path, which supports the creation and consolidation of internal audit function in the entities, in accordance with good practice.

However, the situation of internal audit in Romania contains a number of weaknesses that affect its optimal operation and the short and medium term, they will be rectified. Among these limitations are:

a) The present regulatory limits which negatively influence the organization of the internal audit departments, and carrying out the actual internal audits. An example of this is the confusion among internal auditors in the public economic entities whose financial statements are subject to financial audit, following the updating of Law no. 31/1990. Under this law³, these entities must organize internal audit according to the rules issued by CAFR, thus generating factor in the choice of the organization and functioning of the internal audit no longer represent the will of the majority shareholder (the state), but how to audit financial statements.

On the other hand the internal audit activity in these entities is regulated by Law no. 672/2002 on public internal audit amended and supplemented⁴ by stating expressly that these entities are required to organize and ensure internal audit professional activity, according to the legal framework. Also specified and conditions for the appointment of the head of the internal audit of

these entities namely: to hold a favorable opinion of the superior body⁵ and have the financial auditor⁶.

b) The existence of a large number of internal audit compartments consist of a single auditor.

This aspect is due to the local entities dispersion audited.

These entities are internal audit departments are 1-2 auditors. Besides these problems subjective internal auditors of these entities also face problems of an objective nature, meaning that they can not specific stages of internal audits, for example

- work supervision;
- work to improve quality.

This meeting presented a small public institutions, which carry annual budgets of between 100,000 euros and 2,000,000 euros for a consecutive period of three years and, according to current legal framework are required to organize internal audit .

In order to organize a functional internal audit activities, can achieve an association between these small entities to create a common structure to ensure the audit function of several entities that have a common field. Such associations operating in the UK in compliance with international standards of internal looked up.

Similar situations can be found in the case of road transport entities, ie an autonomous transport, subordinated to a local municipal council. The managements of public entities willing to perform the association should consider the following aspects:

- establishing the conditions in which the association or determining the rights and obligations of entities related to the creation of the necessary material conditions smooth conduct of the business association;
- recruitment and staff necessary for carrying out the association d the conditions imposed by law;
- providing legal assistance needed for the association;
- internal audit activity will take place in the team and the results are presented for acknowledgment and approval management of those entities.

c) Lack of certification and training to allow internal auditors to improve their knowledge, skills and other competencies through training.

Internal audit is a complex activity that requires a good general education requires ongoing relationships with line management and general management and not

least in the systematic training availability for each internal audit mission.

Therefore, internal auditors are responsible for updating their knowledge, they are obligations to keep themselves informed about the progress and current developments in the rules, procedures and working techniques

It is also indicated that internal auditors to obtain certification attesting the competence. In these circumstances, it is necessary that the public sector to organize a national system of certification and training of internal auditors in accordance with International Standards on Internal Audit⁷, system that is coordinated by the Ministry of Economy and Finance.

You can see that in our country, as in the US, the first time it was debated issue of financial audit and accounting of the companies, due to both cyclical economic policy of our country (considering that as currently there are companies commercial owning state capital) and appearance in the new economic markets companies (companies) multinationals and subsidiaries of transnational companies.

It is known that the Ministry of Finance prepares annual accounts for the overall national economy, based on the balance sheets of the patrimonial conducting economic activities, public institutions and other legal entities must submit balance sheets, which presents the Government with annual general account budget execution state.

Based on the analysis of the general account and other analysis and forecasts, made on other balances devised by the central bodies, the government will prepare new budget income and expenditure for the financial year ahead. This requires that public institutions and balance sheets to reflect the reality, legality and regularity of operations included in them.

The role of revenue and expenditure, given economic instability generally increased after 1990, but the safety of the insurance meeting it decreased from year to year, so that very few public institutions and can fully comply destination figures proposed by BVC projects approved under the law and made mandatory.

This compels them to continuously adapt, depending on accomplishments of these figures, between articles and paragraphs.

CONCLUSION

Finally, efforts to harmonize regulations in this field with the acquis must continue to be more ambitious in order to achieve harmonization of Romanian legal

framework with European Union directives and International Standards on Internal Audit.

Managers of public institutions have put normally common questions about control over their functioning.

Thus, in terms of improving performance, public internal audit provides reasonable certainty that the operations carried out, decisions are "under control" and that in this way contribute to remit and objectives of the institution.

Otherwise, the audit should provide recommendations to remedy the situation. For this, we will assess the ability of institutions to perform effectively remit and objectives that have been attributed to the existence of control over the risks inherent in their activities.

Notes

¹ O Ghi M., Hlaciuc E., Boghean G., Ghi R., *Guvernan a corporativ i auditul intern*, Editura Tipografia Moldova, Ia i, 2010, p. 299.

² Dascalu E.D., Nicolae F., *Auditul intern în instituțiile publice*, Editura Economică, București, 2006, p. 51.

³ Law no. 672/2002 on public internal audit.

⁴ Minister of Finance no. 38/2008 approving the Methodological Norms general internal audit exercise.

⁵ Government Decision no.267 of March 13, 2003 on the organization and functioning of the Ministry of Finance.

⁶ HG. no. 235/2003 approving the rules on how the nomination of members CAPI and Minister of Finance no. 939/2003 approving the list of members of the Committee for Internal Audit.

⁷ The Order of the Minister of Public Finance No. 939/2003 for approving the List of the members of the Committee for the Public Internal Audit, (Romania, Bucharest).

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