

PRACTICAL AND THEORETICAL ISSUES CONCERNING INTERNAL AUDIT TOOLS' USAGE

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ABSTRACT: *For presentation and substantiate the findings, in the intervention stage on the spot auditors use internal audit activity-specific instruments, known in the special literature as template of findings. In this material we propose a theoretical approach and a practical example of the methodology of development sites in terms of FIAP recommendations made by the International Standards on Internal Audit and internal audit standards in our country. Regarding the FIAP elaboration, the best practice in field recommends that document should be completed in three stages: First stage: gradual achievement, Second stage: Validation, Third stage: supervision.*

KEY WORDS: *problem, findings, consequence, conclusions, recommendations*

For presentation and substantiate the findings, in *the intervention stage on the spot* auditors use internal audit activity-specific instruments, known in the special literature as *template of findings*. In this material we propose a theoretical approach and a practical example of the methodology of development sites in terms of FIAP recommendations made by the International Standards on Internal Audit and internal audit standards in our country.

In the literature of the internal audit it is pointed out that the sheet identification and analysis of the problem is a rigorous and effective formulation of provisions from *Standard „2320 - Analysis and assessment”* according to which *„the internal auditors should base their conclusions and results of their mission on appropriate assessments and analysis”* and *Standard „2410 - The content of communication”* which recommends: *“communication should include objectives and scope of the mission as well as the conclusions, recommendations and action plan”*.

Regarding the FIAP elaboration, the best practice in field recommends that document should be completed in three stages:

- **First stage: gradual achievement.** The internal auditor outlines problems he finds, as he gets in his discoveries, and intends to

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- analyze. For each problem discovered the internal auditor shall prepare a FIAP, which is completed at the time of validation.
- **Second stage: Validation.** After identifying all the problems the audited structure may encounter, the auditor should be concerned about the collection of evidence for this FIAP. This concern of the auditor is based on one fundamental principles of internal auditing, namely *“there's nothing to be concluded without being validated first”*. In our opinion, validation of an issue should take place only in conditions in which the auditor can obtain the same positive answer to the following questions: It is true the finding which is FIAP's subject? Are the causes based on valid analysis? Are analyzed consequences considered realistic? Do the developed recommendations allow mitigating or eliminating the problem?
 - **Third stage: supervision.** To ensure that the problem or finding, which leads to FIAP's development is properly addressed, the auditor discuss with the supervisor. He analyzes it and establishes its level of importance and place within the internal audit mission, requiring in some cases a deeper exploration or a detail analysis. On that *issue we consider as relevant* the opinion of few experts in the field, namely [4], *“the intervention of the supervisor must be a professional one, that a specialist that was not involved directly in the field during testing and obtaining evidence for the findings and conclusions on the internal auditor”*.

Analysis of bibliographic resources points out that this stage is to avoid imperfections in the FIAP prepared by the internal auditor, *“but also has meaning not to intervene and influence the internal auditor's work”* [4].

In our opinion, supervision of this document allows the removal of contradiction such as: inadequate substantiation of a finding based on laws repealed; existence of incomplete causal analysis, situation often encountered in the case of inexperienced auditors; consequences do not represent the effect the risk producing or they are wrongly estimated; absence of causal links between formulated recommendations and the identified causes.

According to normalizers' concept in our country, FIAP is signed by the internal auditors appointed to collect evidence and making tests, and from the audited structure by an appointed person, only to confirm existing findings in FIAP, not for other elements contained therein.

Using this audit instrument, the theory and practice recommends using a template document that contains five parts:

a) problem must be structured as a statement of some lines, which is intended to alert the reader and especially the Head of Mission, the auditor and audited management structure. In other words, it should be a summary of the findings, the causes and their consequences;

b) findings means bringing together some evidence with predefined titles that which, following the analysis, allows identification of areas of weaknesses to be remedied. When compiling a FIAP internal auditor should consider the following rules:

one FIAP = one finding. If the practical situation requires, the auditor may relate more findings if they are very closely linked, they are the same kind, or have the same issue or result; **the finding must be made as a short statement and synthetic.** In current practice, auditors should avoid supporting explanations used in order to facilitate understanding and can be treated as a causal analysis. However, when formulating a finding necessary to avoid the use of examples that could be a bad start in looking for consequences. Analysis of the above formulation allows us *to state* that a finding should be made in brief, concise way.

c) **the causes** for the emergence of the problem. Causal analysis of the phenomenon is to identify those control tools which once implemented can avoid another production of the phenomenon. However, clear and precise identification of the cause which has triggered the malfunction, should guide the auditor's work on making recommendations. For example, if a finding on the erroneous preparation of analytical balance of tangible assets, the main cause of the problem is: Lack of adequate professional training of persons responsible for developing analytical balance of tangible assets, and its equivalent recommendation is: Develop a training system for the staff from the accounting department departments.

Having determined the foregoing, *we can state* that the auditor, at this stage of Stage spot intervention must identify which of the established internal control instruments have not worked / have worked poorly, and / or not provided, resulting thus producing the failure.

Literature in this area points out that according to most opinions, to achieve this practical approach, the auditor should use certified causal analysis tools. *As a result of research conducted seems appropriate using the method, recommended by two renowned experts, Mr Jacques Renard and Jean-Michael Chaplain [6], the method also called „the fish skeleton“.* According to the design of these experts, this method is a memotechnic tool which guides internal auditor's work, with the help of five words beginning with the letter M (which is why in some works in the field we find as the „method of 5M“), in activity analysis of the 5 possible areas where a problem may have originated.

To exemplify the application of this method in practice, we resume previous the example on developing analytical balance of tangible assets:

- **Labour:** - *staff was not trained on this requirement. Why? because there was not provided appropriate training to persons responsible for developing analytical balance of fixed assets*
- **Environment:** *this document has no utility for the staff. Why? because no one uses this document to base decisions. Why? because there is not any computer program on the management of fixed assets to facilitate access of the top management to this information.*
- **Matter:** *nothing to report.*
- **Material:** *nothing to report*
- **Method:** *lack of work procedures, written and formalized. Why? no one had concerns about this issue: supervision problem - the non-hierarchical control.*

In our opinion, by using this method, the internal auditor can provide a reasonable assurance to the top management only in the condition that the findings of the analysis are real and studied at the most elementary level.

d) consequences. The auditor in the performance of its mission has to quantify the consequences of malfunction identified, whenever is possible. The ultimate goal of this quantification is to measure the impact of the phenomenon, which eventually will allow the auditor to make a classification of FIAPs, depending on the importance of consequences for the entity. The auditor quantifies the consequences of a phenomenon by its nature. Based on this criterion, we classify consequences such as: financial consequences, legal consequences, economic consequences, technical consequences.

The analysis of bibliographic resources and practical experience in internal audit *allows us to state* that even if the auditor can not always quantifies in figures consequences of a phenomenon, he can anyhow - after his research assessments - must provide sufficient quality estimation to allow the reader to correctly measure the consequences of the phenomenon and to estimate the importance.

e) recommendations are necessarily equivalent to the exact causes. The formulation of recommendations, the literature refers to two aspects of met in practice: as a first point it refers to the work of internal auditors who have no experience in the audited area, fact that leads to the development of less precise and detailed recommendations. In these circumstances, the auditor should be limited to general proposals such as: “procedure needs updating” or “the organization system of managing the fuel and lubricants should be revised”; the other refers to the formulation of precise recommendations which contain a real proposal to solve the problem, such as, „nominating a responsible person for the systematic procedures’ development and update” or “execution of a check during the audit in order to determine the size of the malfunctions found and restoration of tangible analytical balance” or “developing a training system for the staff from the accounting department departments”.

The template of this document, completed as well with aspects of internal audit activity related to the finance-accounting department is the following:

SHEET OF IDENTIFICATION AND PROBLEM ANALYSIS NR.12

Audit activity: Finance-accounting activity

Period of audit: 01.01.2009 - 30.09.2009

PROBLEM

- Non-compliance of technical-operational inventory-data of the Finance and Accounting Department templates organizational system.

ASCERTAINMENT

- Lack of written and formalized procedures for assignation and/or allocation of numbers through which it should be stated, for each financial year, which is the number of the first invoice to be issued.

- The person responsible for issuing the financial and accounting documents underlying the accounting record of revenue, having in his job description also the registry of bank operations, due to lack of time, has not completed the document "Invoice" with the address of the purchaser.
- The person responsible for tracking the use of financial and accounting documents of the Finance and Accounting Department has not conducted regular monitoring on how to fill them.

CAUSES

- The person responsible for tracking the use of financial and accounting documents of the Finance and Accounting Department has conducted regular monitoring on how to fill them.

CONSEQUENCES

- The document "Invoice" is not used in accordance with legal provisions, therefore the identification and permanent check over the entity's customers is not allowed. There is the possibility of financial and accounting documents to be already issued but not registered in the accounting registries.

RECOMMENDATIONS

- Develop and formalize a system of procedures regarding the assignation and/or allocate numbers for the invoices;
- Assign a responsible person for the preparation and issuance of the invoices;
- Establishing annually the needed financial and accounting documents and the number of the first document to be issued.
- Setting of concrete tasks, in conjunction with the procedures and job descriptions for staff involved in these activities;
- Staff training in management and check of financial and accounting documents on which revenues are recorded in the accounts.

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On the basis of the above, *we can conclude* that the *raison d'etre* of the internal audit is to elaborate recommendations so that problems encountered within an entity not to occur in the future. Thus, the auditor through his work will contribute to the improvement of the internal control system functioning within the entity.

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