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Studies on the Importance of Internal Audit in Detection of Risks

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***Abstract*—In economic environment there are continuous changes, the main objective of companies being in fact to increase the performance of activities. For this reason, the internal audit missions have a strong impact in all the company departments as they are advising managers on identifying potential risks and follow the trajectory of all transformations that occur in the external environment. Thus, the role of internal audit acquires high valences registering a continuous progress determined by the dynamic environment in which it carries out its activity. Internal audit missions are focusing on effectively anticipating the evolution of risks and in particular on designing recommendations for improving processes and achieving strategic objectives. In this study, the authors drew an analysis of the two pillars, the internal audit and the risk within a company.**

Keywords—internal audit, risks, performance, counseling, management

I. INTRODUCTION

Within the specialized literature we find many authors who have tried to clarify the notion of audit, among which we mention Anderson, 2003, Ramamoorti, 2003, Ratliff and Reding, 2002, Flemming Ruud, 2003, Moeller 2005, [1], [2].[3].[4], [5] Starting with the definition taken from the explanatory dictionary, the term audit comes from Latin and has the meaning of "listening". The term has been used since year 700 AD, since the time of Charlemagne's ruling, king of the Franks. The primary interest of these "hearings" was to prevent fraud by the "Quaestors" who were responsible for the administration of public monetary resources. Verification activities, similar to audit, were also discovered in the ancient civilization of China, Egypt and Greece.

Since 1940, there have been numerous changes to internal audit, which has been regulated by various corporate governance rules and codes. In 1942, J.B. Thurston, the first president of the International Institute of Internal Auditors, said with astonishing anticipation that the brightest prospect for internal audit would be "managerial assistance." In 1991, Joseph J. Mossis - President of the Institute of Internal Auditors in the UK, reiterated the same remark, but in more precise terms: "It is clear to those working in the internal audit function that it plays a vital role, helping management to hold the reins of internal control "[3].

Internal audit is an independent and objective activity of analysis and advice, meant to add value and improve the activities of a company. Its role includes detecting, preventing and monitoring all risks. The internal audit involves a work of analysis, diagnosis and evaluation of internal activities, based on the analysis of risks within the entity, representing a real support for the company's management. The purpose of an internal audit is to provide advice and objective assurance on the effectiveness of the internal management control system by giving recommendations that ensure and contribute to

improving the activity of the public entity. [6], [7], [8], [9]. The “risk” is a component that is found in the management of an entity in terms of identifying it everywhere in the economic and financial life.

The “risk” inherent in any economic activity translates into the variability of the result obtained [10], [11], [12]. The profitability of the asset and, consequently, of the invested capital is thus influenced. In the same time the profitability of the patrimonial asset and, consequently, that of the invested capital is thus influenced. From the perspective of credibility theory, auditors are seen by the general public as vectors of increasing the credibility of financial statements [13]. Based on the theory of inspired trust, audit services must support stakeholder trust in audited companies and in their actions [14], [15].

Within any company, a series of risks can appear, among which we list:[16], [17], [18]

- Financial risks,
- Risks generated by hazard,
- Operational risks,
- Strategic risks.

II. METHODS

This paperwork is supported by two pillars which are the theoretical elements of the studied concepts related to audit and risk. By analyzing the two concepts the authors have tried to emphasize the particularly important role of internal audit in ensuring the smooth running of a company by following all the recommendations made by the internal audit department. At the same time, a risk analysis model was developed within an agri-food company from Iași County, Romania [19], [20], [21], [22].

III. RESULTS

At the current level of development, internal audit is a key element in the corporate governance system. By introducing a systematic and disciplined approach, the internal audit aims to support and strengthen the company's management mechanisms, as well as to evaluate and improve the effectiveness of risk control processes. Specifically, the internal audit is expected to focus on assessing the risks that could adversely affect the organization, as well as establishing a mechanism to monitor and control the risk, in order to eliminate it or at least reduce it. This role of internal audit means that it is a function that knows all the processes within the company, is aware of the risks to which the company is exposed, and it recognizes the internal control and the people who perform this control, which is why its potential and capacity is recognized, especially due to its high efficiency in fraud prevention and detection.

IV. DISCUSSION

It is very important that internal auditors understand the culture of the organization they are auditing and their recommendations should reflect this understanding. the auditor's observations must be challenging for management and identify business opportunities. Also, in a risk-averse culture, it is very important for the auditor to determine the risk exposures so that the organization is not taken by surprise by the threats to which it is or may be subjected.

The audit risk assessment is necessary to ensure that resources are allocated in an efficient and effective manner and that the objectives that have a higher degree of risk exposure are audited.

TABLE I. GENERAL MANAGEMENT RISK ASSESSMENT

	1. Management	Yes	No
a.	The portfolio of the management team is continuously enriched in order to efficiently manage the company		
	director general	x	
	technical director	x	
	economic director	x	
b.	Does the manager have a tendency to carry out high risk transactions within the company?		x
c.	Have employees with key management positions been changed during the financial year?		x
d.	Is the emphasis on maintaining a certain level of profit and on achieving the objectives?	x	
e.	Are there syncopes in the controls performed by the management team?		x
f.	Is there a lack of competent information systems for managers?		x
g.	Is the management team strongly involved in day-to-day operations?	x	

By assessing the audit risks, respectively the risks to which the audited entity is exposed to, the internal audit contributes to the management of corporate risk by identifying new opportunities or threats for the entity, by streamlining the risk management of the entity and by ensuring optimal business. An internal managerial audit is beneficial in any company and can include the assessment of management risk, accounting risk, business risk, audit risk.

The analysis performed on the general assessment of management risk, accounting risk, business risk, audit risk was prepared based on audit reports completed at the headquarters of a company in Iasi County and are summarized in five forms presented bellow.For the general assessment of the management risk, form number 1 was completed.

The authors evaluated the management risk as low, given that the company's management is efficient, strongly involved in daily activities. However, there may be a tendency to achieve certain levels of profit or to achieve certain objectives, given that managers are also shareholders.

TABLE II. GENERAL ACCOUNTING RISK ASSESSMENT

2. Accounting	Yes	No
Is there a decentralized accounting function in the company?		x
Is there a lack of training in the staff of the accounting department and the ability to perform the tasks outlined?		x
Are attitude or ethics issues identified in the financial accounting department?		x
Were errors detected as a result of the pressure work of the financial accounting staff?	x	

From the assessment of the inherent risk regarding the accounting, a low risk was established in the conditions in which the specialized personnel is well trained, specialized in courses of implementation of the international accounting standards. However, some errors may occur in the accounting system.

TABLE III. GENERAL BUSINESS RISK ASSESSMENT

3. Activity	Yes	No
Does the company operate in a high risk sector?	x	
In the near future, do you want the company to be taken over by merger?		x
Are there any changes to the control function in the last year?		x
Following the financial communications, does the company go into insolvency?		x
Is there a third party creditor of individual importance?		x

Taking into account the competitive environment and the branch and conjuncture risks, we can conclude that we have an average business risk, given that the company is solvent,.The principle of business continuity not being affected, compared to other competing companies which are in difficult situations. liquidity and profitability.

TABLE IV. GENERAL AUDIT RISK ASSESSMENT

4. Audit	Yes	No
Would you describe the relationship with the client as "unpleasant" or "tiring"?		x
Are there a significant number of "difficult to audit" transactions?		x
Is there any significant pressure on the duration of the audit engagement?		x
Has an audit opinion expressed a significant reservation in any of the last two years?		x

In conclusion, we can appreciate the fact that the company, even if it operates in a risk environment, is well managed by the management team, using the capitalization method, for long-term development, but without the distribution of

TABLE V RISK REGISTER (FIRST PART)

Standard	Objectives	Risks	Circumstances that favor the occurrence of risk
1 Ethics, integrity	Achieving a climate of collaboration and observance of ethical principles by all members of the company	Non-compliance with the internal regulations	Personal desires for emphasis. Lack of involvement of some members.
2 Duties, functions, tasks	Development of a system based on competence, cooperation between the staff of the communal society	Overlapping the competencies and attributions of various structures within the company	-
3 Competence, performance	Increasing the level of competence and performance of all members of society	Decreasing the level of individual performance	The hardware and software components of each computer, the communication network, the server devices.
4 The organizational structure	Development of compliant organizational structures	Achieving an inflexible structure, unable to react quickly to environmental changes Organizational structure not in line with the objectives	Organizing job competitions, interviews. Staff motivation. Vocational training plan
5 Objectives	Development of activities in accordance with the current state of development and knowledge in the field	Establishing measures not in line with the current state of development and knowledge in the field	Separation of the disposition function from the control function.
6 Planning	Ensuring the scheduling of current activities	Insufficient number of people involved in current activities	Organizing competitions for positions.
7 Performance monitoring	Achieving all objectives	Obtaining incomplete, incorrect information on the degree of achievement of various objectives. Late identification of deviations from the achievement of the proposed objectives	Modification of procedural and structural organization. Separation of the disposition function from the control function.
8 Risk management	Risk management	Failure to take timely risk mitigation measures	Organizing job competitions, interviews.
9 Procedures	Applying the procedures elaborated at the company level and developing own procedures	Failure to apply own procedures and incorrect performance of duties	-
10 Surveillance	Ensuring functionality by supervising the activities carried out under their direct subordination	Differentiated, subjective evaluation of the company's employees. Inconstant evaluation of the activities carried out.	Modify the organization chart
11 Business continuity	Reducing the impact of downtime	Impossibility of the company's management to decide the optimal number of staff in conditions of staff fluctuation	Change organization. Separation of the disposition function from the control function.
12 Information and communication	Informing the company's employees	- Late communication of information available to company employees	Organizing job competitions, interviews.
13 Document management	Development of the electronic communication system, complementary to the paper one	Loss of documents issued by the company. Failure to assume the responsibility of employees regarding the issuance, transmission and archiving of documents	. Separation of the disposition function from the control function. Change procedures.
14 Accounting and financial reporting		The existing procedures within the company are elaborated / updated in accordance with the applicable normative provisions	Staff training plan.
15 Evaluation of the internal / managerial control system	Development of a control system to achieve specific objectives	Development of a surface control system	Separation of the disposition function from the control function. Change procedures.
16 Internal audit	The internal audit is performed at the company level	- Carrying out audit missions	

exaggerated dividends.It is considered a low overall inherent risk. Based on the research carried out, the authors created the Risk Register model to be the starting point in any audit mission performed in the company.

The following abbreviations were used for the second part

- Probability: Estimating the chances of occurrence and recurrence of risks:

1. rarely,
2. unlikely,
3. possible,
4. most likely,
5. almost certainly

- Impact: Estimating the impact on risk:

1. insignificant,
2. minor,
3. moderate,
4. major,
5. Critical

- Exposure:

1. The value of the risk action inherent as a result of the product between impact and probability

Strategy adopted:

- A: Accepting the risk (the risk has a low exposure)
- S: Risk monitoring (risks have significant impact, very low chances of occurrence / recurrence, limited resources)
- E: Risk avoidance (elimination, restriction of activities that generate risks)
- T: Transfer of risks
- Tr: Risk management

Control tools I: Information, E: development of procedures, M: monitoring, R: risk reassessment

TABLE VI RISC REGISTER (THE SECOND PART)

STANDARD	INHERENT RISKS				*Control tools Internal residual risks (actions to treat risks)*	RESIDUAL RISKS		
	Probability	*Impact*	*Exposure*	*Adopted Strategy*		*Probability*	*Impact*	*Exposure*
Ethics, integrity	5	2	1	S	I	5	4	1
Duties, functions, tasks	2	1	1	T	R	1	1	1
Competence, performance	3	4	1	S	M	3	2	1
The organizational structure				A	I	4	2	1
Objectives				Tr	M	1	1	1
Planning	2	1	1	T	R	4	2	1
Performance monitoring	2	2	1	Tr	M	1	1	1
Risk management	2	1	1	T	R	4	2	1
Procedures	2	2	1	A	I	3	3	1
Surveillance	2	1	1	A	E	5	5	1
Continuity of activity	3	4	1	S	I	1	1	1
Information and communication	2	1	1	S	I	4	2	1
Document management	4	4	1	T	I	1	1	1
Accounting and financial reporting	4	3	1	A	E	4	2	1
Evaluation of the internal / managerial control system	4	5	1	T	R	3	3	1
Internal audit	4	4	1	A	I	4	3	1

V. CONCLUSIONS

A well-organized internal audit, consisting of independent internal auditors, for whom the application of professional skepticism is imperative and who feel responsible for the continuous improvement of knowledge about fraud, can significantly reduce the risk of fraud.Internal audit is able to meet the high expectations of the company's stakeholders and justify the trust placed in it.

Following the study undertaken, we can conclude the following:

A well-organized internal audit consists of independent internal auditors, for whom the application of professional skepticism is imperative and who feel the responsibility to continuously improve knowledge about all departments audited.

We believe that internal audit is able to meet the high expectations of the company's stakeholders and justify the trust placed in it. Following the study undertaken, we can conclude the following

An internal managerial audit is beneficial in any company and can include the assessment of management risk, accounting risk, business risk, audit risk

Auditors must master:

- Analytical and critical thinking skills.
- An effective method to gain a proper understanding of any auditor - individual, organization or system.
- New concepts, principles and techniques of internal control.
- Awareness and understanding of the risk and opportunity related to both the audited and the auditors.
- Development of general and specific audit objectives for any audit project.
- Selection, collection (using a wide range of audit procedures), evaluation and documentation of audit evidence, including the use of statistical and non-statistical induction.
- Audit reporting results in a variety of formats for a variety of recipients.
- Audit monitoring.
- Professional ethics.

In this ever-changing business environment, the internal audit function becomes a major support function for management and stakeholders. Properly designed and implemented, the internal audit function can play a key role in promoting and sustaining effective organizational governance.

Risk can be considered both at the macro or portfolio level (enterprise-wide risk management) and at the micro or departmental level. Risk management is often an area where internal audit can contribute greatly by providing analysis and providing wise advice to senior management and the board.

The internal audit function also performs a risk assessment at the micro level, for its own purposes, to identify those areas that require the greatest effort from the internal audit function and to obtain adequate audit coverage of the audit universe. for defined periods of time. Internal auditors can play a significant "partnership" role with management in establishing and monitoring the business for risk assessment, measurement and reporting in general, and in implementing enterprise risk management initiatives.

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