

DOI: <https://doi.org/10.53486/cike2022.29>

CZU: 657.6:334.72(478)

## THE IMPORTANCE OF THE INTERNAL AUDIT IN ENSURING THE COMPETITIVENESS OF THE ENTITY

Cauș Lidia,  
conf. univ., dr. ASEM,  
Chișinău, Moldova,  
caus.lidia.ion@ase.md

<https://orcid.org/0000-0003-3203-3221>

*In this article are exposed the importance of internal auditing in organizations, regulated by the stipulations of the Internal Auditing Standards. Internal Auditing ensures the competitiveness of entities, which will lead to the providing of truthful and objective information to information users. Internal Auditing services are used by company leaders, who have understood the benefits of the internal audit to find out the real situation of the company, to obtain advice and recommendations for improving its economic situation. The internal audit as an independent and objective activity, provides the entity with a degree of control over the operations, improves the operations and contributes to adding more value to them, helps the entity to achieve its objectives, systematically and methodically evaluates the risk management, control and governance of the institution, and finally brings proposals to strengthen their effectiveness.*

**Keywords:** *internal auditing, competitiveness of entities, consultancy, risks.*

**JEL Classification:** M-41

The audit was initially practiced for external users, called external audit. Later, the audit services began to be used by internal users, especially by the managers of the company, who understood the benefits of the internal audit to find out the real situation of the entity and to obtain advice and recommendations to improve its economic situation. Internal audit activities are carried out in various legal and cultural environments, within organizations, which vary according to the purpose, size, complexity and structure of the entity. Although differences may affect internal audit procedures in each environment, compliance with International Standards for Professional Internal Audit Procedures is essential as internal auditors' responsibilities overlap. Considering the requirements of the European Regulations issued by the European Commission, regarding the management and internal control system applicable to institutions involved in the management of structural funds, a detailed exposition of the internal audit activity is necessary.

Internal audit is an independent and objective assurance and advisory activity, intended to add value and improve the activity of a public entity. Internal audit activities help the entity to achieve its objectives through a systematic and methodical approach. The governance process of the public entity is evaluated by the internal audit, providing adequate assurances and recommendations for its improvement. The internal audit is based on the effectiveness of the risk management process and excludes the possibility of fraud and corruption. The internal audit verifies the way in which the public entity manages the risks related to the activities carried out. The efficiency and effectiveness of the companies' activities is ensured by the control activities of the internal audit.

The internal audit is carried out by employed persons, who are subordinate to the entity's administration. The auditor's independence is regulated by legislative and normative acts. The internal audit is carried out in the interest of management by one or more persons employed under individual employment contracts. Internal auditors do not have the decision-making power, which remains and belongs to the entity's administration.

In its activity, internal auditors are based on the following regulatory acts specific to the field: Internal Audit Standards, Code of Ethics of Internal Auditors, Internal Audit Charter, Methodological Norms on Internal Audit Activity, other normative acts in the field of internal audit, own application instructions of the methodological norms regarding the internal audit activity, taking into account the specifics of the institutions.

The Ministry of Finance has completely revised and redesigned the Internal Audit Standards and Internal Audit Norms in the public sector in order to streamline and simplify them, and update them according to the latest trends and developments in the given field. The internal audit rules regulate the obligations of the persons carrying out internal audit activity and impose minimum requirements for the activity in the field.

Internal auditing standards are part of the conceptual framework for professional practices. The Board for Internal Auditing Standards is engaged in extensive consultations and discussions, with a priority for issuing standards and their development. This includes an international request for public comments in the project exposure process. The internal audit standards delineate the basic principles that represent the practice of internal auditing and provide the rules for carrying out and promoting a wide range of activities that bring added value to internal auditing. Internal audit standards establish the basis for evaluating internal audit performance and are concerned with improving organizational processes and operations.

The internal audit norms applied by public entities ensure the internal audit activity through one of the following forms:

- internal audit subdivision established in its own organizational structure,
- internal audit by association,
- internal audit based on contract.

Internal audit is an independent and objective activity that gives an entity assurance regarding the degree of control over its operations, guides it to improve its operations and contributes to the addition of added value. Internal audit helps organizations achieve their goals by evaluating, through a systematic and methodical approach, its processes of risk management, control, and governance of the organization and making proposals to strengthen their effectiveness.

The internal audit activity is independent, so the internal auditors carry out the activity with objectivity. The head of the internal audit department reports within the entity to a higher hierarchical level, which allows him to fulfill his responsibilities within the internal audit activity. The internal audit activity must not be subject to any interference in terms of defining its area of applicability, carrying out the activity and communicating the results.

Internal auditors have an impartial and uninfluenced attitude, thus avoiding conflicts of interest, that is why the declaration of interests is completed. If the objectivity or independence of the internal auditors is affected in fact or in appearance, the interested parties must be informed

about the details of the situations that create these damages. The form of this communication will depend on the nature of the damage. The objectivity of an internal auditor is affected, when he performs an assurance mission for an activity for which he was responsible during the previous year.

The assurance missions aimed at the functions for which the head of the internal audit activity is responsible must be supervised by a person who is not part of the internal audit structure. While internal auditors can offer consulting services in relation to the implementation of the operations for which they were responsible in the past. If the independence or objectivity of the internal auditors could be affected in connection with the proposed consulting services, they must inform the client, who requested the assignment, about this before accepting it.

Internal auditors must have the knowledge and skills necessary to exercise their individual responsibilities. The internal audit department must possess or acquire collectively the knowledge and other skills necessary to exercise their responsibilities. Missions must be performed with competence and professional conscientiousness. The leader of the internal audit activity must obtain expert advice and assistance from other people if the staff in the Internal Audit Department does not have the knowledge or other skills necessary to partially or fully carry out the mission.

Internal auditors determine the main risks within the activities carried out by the entity. The leader of the internal audit activity must refuse a consulting mission or obtain specialized assistance from other people if the staff in the internal audit department does not have the necessary knowledge or skills to carry out the mission.

The internal auditor pays the necessary attention to the professional practice of the audited entity, taking into account the following elements:

- the scope of activity necessary to achieve the objectives of the mission;
- the relative complexity, the threshold of significance or the significant nature of the problems to which the procedures of the missions are applied;
- the adequacy and effectiveness of the risk management, control and governance processes of the organization;
- the probability of the existence of significant errors, irregularities or non-conformities;
- the cost of applying the missions in relation to the potential advantages.

In the conscientious exercise of the activity, the internal auditor must consider the use of computer-assisted audit tools and other data analysis techniques.

The internal auditor shows special vigilance regarding the significant risks that could affect the objectives, operations or resources of the organization. However, the application of internal audit procedures, even if carried out with the necessary professional conscientiousness, does not guarantee the identification of all significant risks.

The internal auditor, when carrying out a consulting mission with professional conscientiousness, will take into account the needs and expectations of the clients, including regarding the nature, planning and communication of the results of the mission, the relative complexity of the mission to achieve the objectives established at the entity.

The leader of the internal audit activity develops quality assurance and improvement programs to cover all aspects related to the internal audit activity and permanently monitors its effectiveness. The program includes internal and external evaluations of the quality of the entity's activity and permanent monitoring. The developed program helps the internal audit activity to

bring added value and improve the organization's activities and provides an assurance that the internal audit activity is carried out in accordance with the Internal Audit Standards and the Code of Ethics. Thus, internal auditors improve their knowledge and skills through continuous professional training. The internal audit activity must adopt a process that allows monitoring and evaluating the overall effectiveness of the organization's quality control program.

The internal audit unit has access to all the institution's activities to assess whether the risk management, internal control and governance processes organized by the entity's management are adequate and operate in a way that ensures:

- adequate application of the legal framework, achievement of the objectives of the public institution;
- identification and appropriate management of risks;
- the appropriate interaction with and between the managers of the public institution;
- correctness, safety and timeliness of information;
- compliance of the employees' activity with the policies, procedures, regulations of the institution and directives of the management;
- the economy, efficiency and safety of resources;
- realization of programs, plans and objectives;
- improving the entity's internal control processes.

Internal audit, initially focused on accounting issues, has today become a powerful tool for detecting the main risks of organizations. The audit has specific functions for this activity, which consists in offering consultations to the head of the entity and providing assistance to personnel with managerial tasks.

The internal auditor provides advice to the manager regarding the administration of the activities for which he is responsible. That is why the internal auditor considers himself an adviser, who helps the management to solve the problems related to the economic-financial activity, so that the decision approved by the manager ensures a more effective control in the future. As an advisor, the internal auditor acts professionally and with the application of certain tools and techniques.

The internal auditor provides assistance not only to the management, but also to the entity's staff. The interest in the internal audit is manifested by any employee of the entity, more particularly the staff is interested in minimizing the risks related to compliance with the basic regulations or related to the effectiveness of the entity's activities. The need for assistance is more obvious in the case of risks related to misappropriation of funds, fraud or disappearance of assets. The internal audit is an activity within the entity aimed at providing solutions for improving the risk management and internal control system.

The internal auditor works both in the private and in the public sector, contributing to the improvement of internal control related to all activities carried out within the entity, including those of a financial and accounting nature. Internal audit helps managers to better control the activity of the entity. To achieve this goal, the internal audit must have the possibility to audit every activity within the entity. Therefore, the internal audit activity is carried out by specialists from various professional fields. If the entity cannot afford to hire the necessary specialists, it will resort to contracting external experts.

Internal auditors are hired by the entity to control its activity. They report directly to the entity's board of directors. Their responsibilities are different and depend on the employee's requirements, from a routine check of record compliance to the audit or control of financial statements. The internal auditors are subordinated to the higher management bodies of the unit. External users of information do not really accept their information and do not rely on the data verified only by internal auditors, due to their lack of independence.

Internal audit exists and operates permanently within the entity, but certain objects are audited more frequently or less often depending on the problems and risks they face. The audit schedule of the structures, activities and operations within the entity is established in the strategic plan, the annual plan and the internal audit program.

Currently, the term audit is associated with the activity of financial control, especially the activity of auditing financial statements. Due to the high costs characteristic of external audit, some entities created internal audit structures, which operated with lower costs. These costs, even if they were accompanied by additional payments for certification of the financial statements by the external auditor, added up did not exceed the price of a complex external audit service. In this case, the external auditor did not start the work from scratch, but relied on the results of the internal audit. Currently, units with internal audit services are visited by external auditors in order to make comparisons and various analyses, but not for detailed checks of operations and processes.

The internal auditor is engaged to provide consultations and proposals for the manager of the entity regarding the minimization of risks related to the economical use of means or to identify weak points in their management. The internal audit activity consists in the permanent performance of checks, inspections and analyzes of the internal control system in order to objectively assess the extent to which it ensures the fulfillment of the entity's objectives and the use of resources in an economic, effective and efficient manner, in order to report the findings to management, identified weaknesses and proposed measures to improve the entity's performance.

The internal auditor examines whether the internal control is applied to each activity and operation carried out by the entity and whether the existing internal control is working effectively. And based on the assessments related to the efficiency of the internal control, the internal audit formulates solutions to improve the internal control in the form of recommendations.

From what has been reported, we find that the internal audit is a new function with singular particularities. The internal audit has functions of analysis, consultation and recommendation, it presents internal audit reports that reflect the real situation of an institution under all aspects of activity and that include proposals for solving the gaps detected in its activity. Thus, the internal audit applies to all types of enterprises and all activities within it, which inevitably leads to the provision of objective and truthful information to information users, necessary for decision-making within the entity's activity.

#### **BIBLIOGRAPHY:**

1. The National Internal Audit Standards approved by Order of the Ministry of Finance no. 153 from 12.09.2018 // The official monitor of the Republic of Moldova, 2018, no.400-409, art.1577;
2. Internal audit norms in the public sector approved by the Order of the Ministry of Finance no. 161 from 17.12.2020 // The official monitor of the Republic of Moldova, 2021, no.13-20, art.40.