

INTERNAL AUDIT, INTERNAL CONTROL AND ORGANIZATIONAL CULTURE

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Abstract: The overall objective of the internal audit activity is to ensure that the organization's internal management and control system functions normally, as required by regulations in force, and that the performed operations are fair and with no material errors. Implementation of the control system within the organization and adjustment of policies in order to achieve these objectives is the responsibility of the management of the institution; the management of the institution must ensure the professional functioning of the monitoring system and the internal audit system. An important prerogative of control is to ensure reliability and it must represent the organization's guarantee in achieving its objectives. The auditor should know and understand the organizational culture and internal control of the organization so that he / she could easily identify and evaluate the risks specific to the operation of the organization and the carried out activities. Finally, the result of this research is to identify the strategy used by the internal audit within the organization, organization that should be concerned about the way in which the internal control system is organized, as the object of the internal control activity is to be found in the structure of each management function, each activity and represents the responsibility of each employee.

JEL classification: M14, M42

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1. INTRODUCTION

The audit term comes from the Latin word *audit-auditare*, which has the meaning of "*listening*", but the audit term is known ever since the time of the Assyrians, the Egyptians, during the reign of Carol the Great or Eduard I of England. Audit activities were carried out over time in Romania, but under different names.

The use of the term audit in the current sense is relatively recent and is in place during the 1929 economic crisis in the United States when organizations affected by the economic recession had to pay important sums to external auditors who certified the accounts of all listed companies.

The role and need of internal auditors has been steadily increasing and has been universally accepted, which is why they felt the need to organize and standardize their practical activities. Thus, in 1941, the Institute of Internal Auditors - I.I.A., internationally, recognized, was set up in Orlando, Florida, USA. Subsequently, the United Kingdom joined, and in 1951 Sweden, Norway, Denmark and other states. At present, more than 100 national institutes of internal auditors and members from more than 120 countries have been affiliated

with this institute, following the achievement of C.I.A. - Internal Auditor Certificate, awarded by IAA, based on professional exams.

In Romania, during the planned economy, entities were accustomed to a system where the Romanian Court of Accounts, the Ministry of Public Finance and other foreign control bodies came systematically to carry out substantive controls on their own activity. The etymology of the word "control" derives from the Latin expression "*contra rolus*", which means "*verification of a duplicate act after the original*" (Ghiță, 1995).

Control in its semantic sense is a "*permanent or regular analysis of an activity, a situation to follow its course and to take improvement measures*". At the same time, control means a continuous moral and material surveillance, as well as the mastery of an activity, of a situation (DEX, 1975).

In the literature, we also have other meanings, as follows:

- in the Francophone sense "*control is a check, a careful inspection of the correctness of an act*" (Le petit Larousse, 1975).
- in the Anglo-Saxon sense, "*control is the action of someone's supervision, something, a thorough examination or the power to drive as a mechanism for regulating a mechanism.*" (The New Merriam, 1989).

If, in the Francophone sense, control has connotations of knowledge of the phenomena, the correctness of performing the activities carried out by systematic verification, in the Anglo-Saxon sense, control has knowledge connotations to master the phenomena and to make decisions by the leadership (Hightower, 2015). Analyzing the concept of control, we find that it is a management attribute, a function of leadership, a means of knowing the reality and correcting errors. The most common sense associated with control is verification, which is often associated with the activity of knowledge that allows management to coordinate activities within the organization in a more economical and efficient way (Chorafas, 2001). Starting with 1999, the recognized definition of internal control in our country in the public sector is regulated by OG. no. 119/1999 regarding internal control and preventive financial control, republished, as "*internal control represents all the forms of control exercised at the level of the public entity, including the internal audit, established by the management in accordance with its objectives and with the legal regulations, in order to ensure the administration funds in an economically efficient, effective manner; it also includes organizational structures, methods and procedures*". According to this definition, internal control represents the set of devices chosen by management and implemented by managers at all levels of the public entity in order to control the overall functioning of the public entity and the conduct of each activity / action so that the objectives set to be performed.

Organizational culture is the invisible force of every company that ensures consistent day-to-day actions and explains the so different results obtained under the same market conditions of various organizations that are relatively similar in terms of size, market share or field of activity. It is important for any company to know closely the traits of their own organizational culture to develop policies and strategies that are in line with the values accepted and shared by the members of the organization (Gyula *et al.*, 2002).

2. OBJECTIVES

This article aims to relieve the role of internal auditors in the public sector for the initial assessment of internal control in order to prepare and carry out internal audit missions. The overall goal is to provide a useful tool from the perspective of organizational

culture for internal auditors to support them in analyzing and selecting auditing activities / actions.

3. METHODOLOGY

A number of 50 managers (23 male and 26 female) were involved in the sparse performance, from public institutions in Romania. The method was based on the use of the questionnaire that was sent by mail, and the results were ascertained as a result of the random assignment. The research took place between 05.07.2018 ÷ 07.10.2018. To determine the accuracy of the questionnaire we used the alfa-Kronbush calculation method whose value was equal with 0.86. Spearman method, Pearson and Friedman methods.

In the control process, it was analyzed and evaluated the roster of resources structured in three categories: internal audit, internal control and organizational culture (Table 1). The process of designing and implementing the internal control system within each public entity is based on the internal / managerial control standards approved by the OMFP no. 946/2005, for the approval of the Internal Control Code, including the internal / managerial control standards in the public entities and the development of internal / managerial control systems, republished, as subsequently amended and supplemented.

Internal control analysis is based on 5 closely interdependent elements that arise from the manner in which activities are managed and which are integrated into these activities (Table 1). The implementation of these components is done differently according to the particularities of each public entity.

The internal audit function, when assessing internal control, must establish:

- if internal control exists and works;
- If internal control has detected all risks;
- If for all the identified risks it has found the most appropriate procedures;
- if controls are missing in certain activities;
- if there are redundant controls;
- transforms into recommendations all these findings and conclusions on internal control through the audit report that he will submit to the manager.

Regarding the organizational values, we consider that the following cultural indexes have the capability to capture the most important behaviors that determine the organizational climate of a Romanian organization: distance from power, grouping, empowerment, assuming responsibilities, developing competencies (Table 1).

Table 1 – Organization control environment

INTERNAL CONTROL	INTERNAL AUDIT	ORGANIZATIONAL CULTURE
1. Control environment	1. Internal control is implemented	1. Distance to power
2. Risks assesment	2. Internal control identifies all risks	2. Reporting to the group
3. Control activities	3. All identified risks have found the most appropriate procedures	3. Empowerment
4. Information and communication	4. Controls are missing in certain activities	4. Taking responsibility
5. Monitoring	5. There are redundant controls	5. Developing skills

Source: the author's own concept

Although the internal control environment is relevant and applicable to all organizations, the way of implementation differs according to the nature and environment of the entity and depends on a number of specific factors such as organizational structure, risk profile, activity environment, size and complexity of activities, and the applicable regulatory system.

4. ANALYSES

As long as organizational culture is strongly influenced by societal values, such a comparison needs to be supplemented by data to measure and influence societal values on individual organizational culture. At the same time, organizational values are strongly influenced by the mission, purpose, and overall goals of the organization, elements that we will find in similar forms to all organizations, regardless of the continent they operate on.

4.1 Critical

We have found that 53% of managers interviewed have appreciated that internal audit helps the organization to meet its objectives by bringing a systematic, disciplined approach to assessing and improving the effectiveness of risk management, internal control and leadership (figure 1).

On the second place as importance, 36% was the internal control and from the analysis of its component elements it was shown that (figure 1):

- 1) An appropriate control environment determines the direction of the organization and determines the awareness of human resources to the need to develop internal control, it is the basis for the other components, requiring discipline and organization.
- 2) An important role is represented by the way of risk management, namely the identification and analysis of risks in order to achieve the objectives, as well as the identification and analysis of susceptible factors, which may affect the achievement of the objectives and their evaluation in order to determine the measures that can be managed by the risks.
- 3) As mandatory, control activities should include policies, practices, procedures, documents, etc. through which management decisions are put into practice. These activities must ensure that the devices required to reduce the level of risk are applied to all functional structures and hierarchical levels.
- 4) Information and communication entails the internal dissemination of relevant, reliable information, the knowledge of which enables each person to exercise his responsibilities.
- 5) Monitoring must involve permanent monitoring of the internal control device and an examination of how it works. This must be done by qualified personnel at certain times.

On the last place, representing 11%, interviewed managers consider organizational culture to be of major importance due to the following principles (figure 1):

- 1) Distance from power - shows the extent to which members of the organization accept that power is unevenly distributed; the employee's fear of expressing his opinion, exaggerated respect for his bosses or preferences for an organization with a well-established hierarchy.
- 2) Reporting to the group - the degree to which employees are integrated into groups.

- 3) Empowerment - to what extent the organization in which the respondent participates encourages the delegation of competences, the ability of each person to make decisions in his / her field, and the assumption of responsibilities for the decisions taken.
- 4) Taking responsibilities - the degree of involvement of respondents in the good things, the willingness to make decisions on the basis of existing information, even if they will later prove to be wrong.
- 5) Competence development - to what extent the organization has and puts into practice a coherent policy of identifying training needs and then training itself for new skills for employees.

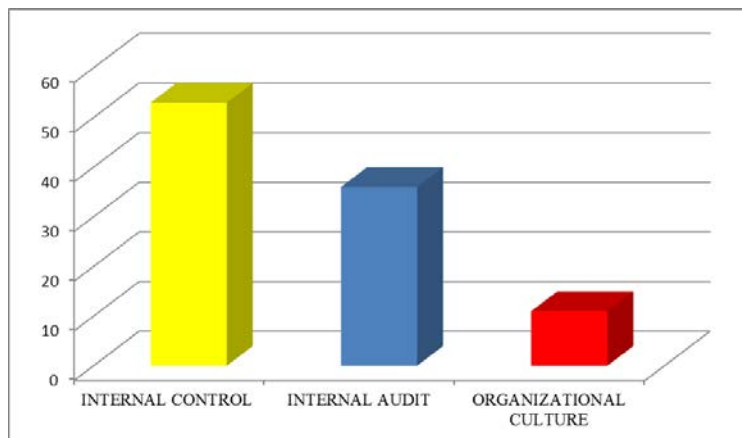


Figure 1 – The importance of organizational control environment factors

Source: the author's own concept

5. CONCLUSIONS

In our opinion, a complete analysis of organizational culture at a company level must determine all the influences that shape the organizational culture of each individual, starting from the values of the society in which the individual was raised and educated and reaching the values of the company in which they operate.

From the analysis of the concepts used in managerial practice, the idea was that internal control is a set of elements implemented by the managers at all levels to control the functioning of the public entity's activities in relation to the established objectives. Thus, the concepts reflect four fundamental principles:

- internal control is a process, a means to achieve an objective;
- internal control is done by people, which means besides handbooks, policies, instructions, documents, etc. and people at every level of the public entity;
- internal control provides reasonable assurance to the entity's management of that the objectives of the public entity will be met;
- internal control contributes and ensures the achievement of the objectives of the public entity.

We believe that the overall objective of internal control is to ensure the continuity of the organization in achieving its objectives. It highlights the following:

- internal control must be appreciated in a dynamic manner, each of its components has its place in the entity's process of operation;

- all entity levels are involved in the process as well as all factors of leadership within the functional structures have the same role; the aim of internal control is to ensure that the objectives can be achieved.

The analysis shows that the internal audit has three main concerns:

1. reports to management at the highest level so that it is the decision-maker, respectively the head of the executive or the board of directors;
2. assesses and supervises the internal control system and risk management;
3. provides guidance for improving management, based on risk analysis of auditable activities.

Internal audit, through its practice, enters the culture of the organization, and when the manager appeals to the auditors, he becomes a responsible, indefinitely accountable function. These permanent objectives of internal control are not identifiable with the specific objectives set for the entity's functional structures, but represent the background of each activity, from the top of the hierarchical pyramid to the bottom of it. In practice, the role of internal audit can only materialize when it is implemented on the strategic line of the organization: general manager - risks - internal audit - standards of good practice - results. The professional auditor's professional competencies produce real benefits to the entity through a systematic assessment based on the auditing standards and best practices, policies, procedures and operations performed by the entity.

The control environment is part of the organizational culture influenced by the management style, the system of values of employees, the people with professional competence and their integrity, the description of activities and procedures, the organizational structure, the separation of tasks, the frame of the various forms of internal control.

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