

SIMILARITIES AND DIFFERENCES BETWEEN INTERNAL AUDITING, INTERNAL PUBLIC AUDITING AND OTHER SERVICES

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Abstract: The internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, making propositions in order to consolidate the efficiency. The financial auditing represents the activity of professional examination of the information in the purpose of expressing a responsible and independent opinion, in relation to a standard, quality criteria aiming at improving the use of information. The Internal public auditing helps the public entity to fulfill its goals through a systematic and methodic approach, evaluating and improving the efficiency of the management system based on risk, control and administration processes management. The control represents a permanent or periodical analysis of the activity, of the situation in order to follow its development and in order to take improvement measures.

Law no. 672/2002 concerning internal public auditing defines the **internal public auditing** as the activity independent and objective from functional point of view, providing guarantees and advice to the management for the good administration of the public income and expenses, improving the activity of the public entity.

The control is a component of management, a specific human activity able to serve both to the management, to third partners and to the public authorities, even to the population. **The management control** is a subsequent control aiming at observing the legal dispositions concerning the management of material and cash means based on documents recorded in bookkeeping.

The internal auditing function emerged as a result of acquiring external audit activities, providing thus certain confusions that are still active. Actually, the two functions are clearly differentiated and in the same time there are complementary relations between them. The external auditing (financial) is generally applicable to the accounting function only, based on the financial accounts. The financial auditor sometimes checks the internal control system through specific tests in view of increasing the level of confidence in the financial statements subject to audit.

The internal auditor, also through specific procedures, examines and discloses opinions related to operational audits (regularity audit, performance audit) and to the ones related to management and strategy.

Here are the main differences between the internal auditing, internal public auditing and external auditing functions, according to table 1:

Table 1

Parallel between internal public auditing, internal auditing, external audit

Criteria	Internal public auditing	Internal auditing	External auditing
1. Statute	Integrated to the public entity	Integrated to the trade company or an external specialized company	External specialized company
2. Who makes the appointment	The leader of the company with the approval of the internal public auditing department from the higher hierarchic organism	The general assembly of shareholders or the board of administrators	The general assembly of shareholders or the board of administrators
3. Goals of auditing procedure	Evaluation of the internal control system and the assurance given to the company's management that it is operational	Surveillance of the management and check of the legal compliance of the financial statements; makes recommendations for the improvement of the governance process	Certification of the financial statements; evaluates the internal control system, but only for financial – accounting elements
4. Beneficiaries	The company's management at all levels	The shareholders, the board of administrators, the employees	All that intend to certify the accounts: banks, shareholders, authorities
5. Scope of the audit	The scope is larger, covering all the company's functions	The scope is larger, covering all the company's functions	The verification is focused on the issues determining the financial standing and the company's performances
6. Period of the audit	It has a relative independence, being considered independent in the exercise of its function	Permanent activity within trade companies according to the articles of association	The targets are intermittently organized and at suitable moments for the certification of accounts
7. Auditor's independence	Relative independence, being considered independent in the exercise of its function	Relative independence, or in case the internal auditing is performed by a third company, we have the independence specific to freelancers	Independent to its client as representative of a free profession, legally and statutory regulated
8. Methodology employed	Clearly set out and specific methodology	Clearly set out and specific methodology	Accurate, standardized methodology

Source: Morariu Ana, Suci Gheorghe, Stoian Flavia, 2008 – Internal auditing and corporative governance, Universitary Publishing House, Bucharest

Internal auditing and internal control

Methodological norms concerning the enforcement of the GO no. 119/1999 achieves a clear delimitation between the 2 concepts, stating that “no confusion will be made between internal control, as a whole of measures available to the public institution manager, intended to provide the good operation of the public institution and internal auditing, that being an endogenous type control, is an evaluation type control and especially a final control, the last of the series of controls performed by the structures of the public institution concerned.

Table 2

Parallel between internal public auditing, internal auditing, internal control

Criteria	Internal public auditing	Internal auditing	Internal Control
1. Statute	Integrated to the public entity	Integrated to the trade company or a third company	Integrated to the public entity
2. Function positioning	Organized at the highest level	Organized at the highest level	Organized at each level of management
3. Goals	Evaluation of the internal control system and the assurance given to the company's management that it is operational	Surveillance of the management and check of the legal compliance of the financial statements; makes recommendations for the improvement of the governance process	Draft of policies, norms and procedures for the good operation of the companies and removal of risks
4. Beneficiaries	The company's management at all levels	The shareholders, the board of administrators, the employees, the managers	The company's management at all levels
5. Responding to	Own line of responding to the highest management level	General assembly or the board of administrators	Responds to the hierarchical superior and not to the highest management level
6. Measures	Makes findings issued recommendations and conclusions covered by a protocol, submitted to the approval of the entity	Checks all claims made by shareholders, issues recommendations; drafts internal auditing reports concerning company management	Makes findings, sets responsibilities and supervises the capitalization of findings
7. Methodology employed	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	No specific methodology, but relies on the observance of legal stipulations

Source: Morariu Ana, Suci Gheorghe, Stoian Flavia, 2008 – Internal auditing and corporative governance, Universitary Publishing House, Bucharest

Internal control is not organized as a distinct department within the entity, but is present in the structure of each function of the management, of each activity and falls in the charge of each employee. Each is liable for its internal control. The line management, respectively of department leaders, except for the internal control has also other control duties subject to decrease or development according to the risk evolution within the managed entity. The internal auditing, as a difference from the internal control, is organized as distinct structure responding to the general company management.

Between the concepts of internal control and internal auditing **there are similarities and differences**. Firstly, both are components of the control forms established at company level, in the purpose of reaching economical, efficiency and efficacy conditions. Both represent managerial control types but one must draw a line between the certification, measurement, evaluation and assessment control of other control actions, which is the internal auditing and the own internal control, mainly consisting of preventive, management, administrative, hierarchic audit.

The **internal auditing** also referred to as “control of controls“ supposes analysis, diagnosis and evaluation of internal activities based on risk analysis of the company and representing an actual support for the company’s management.

The **internal control** is also an instrument of management aiming at the fulfillment of the responsibilities undertaken by each person, regardless the position held within the company's hierarchy. The internal control is not a function but a total that can be characterized through its five components: control environment, risk assessment, control activity, information - communication and supervision.

Another similarity between the two concepts relates to the universal size since it is applicable to all the companies and to all functions. Both the internal auditing and the internal control aim at all components: the financial – accounting, production, human resources, administration, technology of information and also concerning the quality management.

Internal auditing and external counseling

The advisors (consultants) have enough and pertinent knowledge about the external environment of the company, which provides several advantages able to help the public entities in solving certain special issues. The external service provider can be a private person or a company, independent from the company, having the knowledge, skills and special expertise in a certain field.

The advice services (consultancy activities) are recommendations and are generally carried out upon the specific request of a client. Such activities aim at adding a plus of value and at improving the functioning of a company, of the risk management and of the control processes, without the Internal Auditors undertaking management responsibilities. The advice missions have several specific features:

- the consultant is called for a certain, well delimited issue meeting its technical ability, and the consultant will not interfere in other issues, except for the initial ones;
- the mission has a clear goal and its duration is generally clearly delimited;
- the advisor is working for a certain responsible within the company, which remains the “owner“ of his report;
- with the customer's approval, the advisor can expand the initial scope from simple diagnosis to taking measures for improvement of activities and suitable implementation thereof.

The main similarities and differences between the internal public auditing, internal auditing and external advice services are contained in table 3.

Table 3

Similarities and differences between the internal public auditing, internal auditing and external advice services

Criteria	Internal public auditing	Internal auditing	External advice services
1. Statute	Integrated to the public entity	Integrated to the trade company or a third company	Specialized third company
2. Goals	Evaluation of the internal control system and the assurance given to the company's management that it is operational. Shows the deficiencies during the internal control	Surveillance of the management and check of the legal compliance of the financial statements; makes recommendations for the improvement of the governance process	Expresses an opinion in various fields where the external advisor is qualified and acknowledged (legal issues, evaluation of special assets, accounting expertise)
3. Beneficiaries	The company's management at all levels	The shareholders, the board of administrators, the employees, the managers	The company's management or the applicant
4. Measures	Makes findings, issued recommendations and conclusions covered by a protocol, submitted to the approval of the entity	Checks all claims made by shareholders, issues recommendations. Drafts internal auditing reports concerning company management	Drafts a protocol expressing its opinion to the issue applied for
5. Methodology employed	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	Methodology specific to the profession
6. Scope	Periodically assesses all segments of the public entity, so it has the largest scope	Periodically assesses all segments of the public entity, so it has the largest scope	Assesses only the issues concerned

Source: Morariu Ana, Suci Gheorghe, Stoian Flavia, 2008 – Internal auditing and corporate governance, Universitary Publishing House, Bucharest

Internal auditing and management control

The management control is a subsequent control aiming at the observance of the legal stipulations concerning the management of material and cash means, based on documents recorded in bookkeeping.

The management control is carried out by higher or medium studies specialized staff, in the position of inspectors in charge with control. Persons under criminal proceedings can not be appointed for such activity, and neither persons convicted and reprieved for offences such as : abuse during work, forgery, use of forgery, giving and taking of bribe or other offences that caused patrimonial damages.

The management control aims at the following goals:

- existence, integrity, keeping and guarding of assets and values of any type, held under any title;
- use of material values, removal of assets;
- effecting in cash or into an account of cash receipts and payments in lei or foreign currency, of any type, salaries and withholds included and other obligations to the employees;
- draft and circulation of primary documents and technical operative and accounting records.

The financial management control is entirely or randomly in relation to:

- a) volume, value and nature of the assets;
- b) possibilities of stealing;
- c) preservation and storage conditions;
- d) frequencies of previously identified deviations.

The management control is in the **direct subordination of the credit supervisor**, not being involves in operative activities, as the internal auditor. The control and management activity is held based in half-yearly or annual programs drafted by the management control department leader and approved by the credit supervisor (company's manager).

The management control is organized at the decision of the company's leader setting forth the legal frame and appoints the main activities or goals.

The protocols drafted by the management controllers (protocols or finding bills) must include the following issues at least:

- deficiencies;
- legal stipulations infringed;
- economic, financial and patrimonial consequences;
- persons accountant for the occurrence of deficiencies;
- measures taken during control and other measures to be taken.

The Internal Auditors and the management controllers have the same goals: help the entities in efficiently managing the resources entrusted to them or in their patrimony, the internal auditing conducting mainly the preventive activity based on risk analysis, while the management controllers check the activities or the processes.

Parallel between the internal public auditing, internal auditing and management control are contained in table 4.

Table 4

**Parallel between the internal public auditing, internal auditing
and management control**

Criteria	Internal public auditing	Internal auditing	Management control
1. Statute	Integrated to the public entity	Integrated to the trade company or a third specialized company	Integrated to the public entity or to the trade company
2. Positioning of the function	Organized at the highest level	Organized at the highest level	Organized at the highest level
3. goals	Evaluation of the internal control system and the assurance given to the company's management that it is operational. Shows the deficiencies during the internal control	Surveillance of the management and check of the legal compliance of the financial statements; makes recommendations for the improvement of the governance process	Existence, integrity, keeping and security of all types of assets; removal of assets; cash receipt and payments in lei and foreign currency, circulation of primary documents and technical operative records
4. Beneficiaries	The company's management at all levels	The shareholders, the board of administrators, the employees, the managers	The company's management at all levels
5. Responding to	Own line of responding to the highest management level	General assembly or the board of administrators	Responds to company's management and to the Board of administrators
6. Measures	Makes findings, issued recommendations and conclusions covered by a protocol, submitted to the approval of the entity	Checks all claims made by shareholders, issues recommendations. Drafts internal auditing reports concerning company management	Drafts protocols or notes, establishes responsibilities, takes immediate actions and proposes other for the removal of deficiencies
7. Methodology employed	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	Clearly set out and specific methodology, aiming at risk evaluation and plus of value	No specific methodology, but relies on the observance of legal stipulations

Source: Morariu Ana, Suci Gheorghe, Stoian Flavia, 2008 – Internal auditing and corporative governance, Universitara Publishing House, Bucharest

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