

INTERNAL AUDIT — STRATEGIC FUNCTION AND COMPLIANCE WITH INFLUENCES IN THE ACTIVITY OF THE ECONOMIC ENTITY

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Abstract: *Internal audit is of major importance within an entity at operational level in terms of testing compliance with its corporate governance policies and rules, risk management processes and control systems. Internal audit, corporate governance and risk management contribute to increasing the performance of an entity by contributing to achieving the objectives pursued, creating added value and limiting risks. The efficiency of internal audit work leads to a higher probability in identifying and reporting financial distortions and correcting them, helping to improve the risk management of identifying and reporting distortions in the entity, which leads us to the idea that it can contribute to better performance. The role of the internal audit function has expanded and continues to extend beyond the traditional responsibilities of the compliance area, moving its centre of gravity towards a strategic direction within the entity, being increasingly considered a strategic function of the entity.*

Keywords: *internal audit, entity strategy, risk management, compliance, performance.*

JEL Classification: *M41, M42.*

1. Introduction

The economic environment is characterised by a continuous process of searching and analysing tools and mechanisms that can lead to better risk management and thus an increase in overall performance. The risk represents a constant in economic and financial life, being a general component of all activities, it is found in the management of companies, in the decision-making process. In view of the impossibility of accurately predicting the future, financial decisions generally have elements of uncertainty. From the point of view of its general conception and understanding, the internal audit shall be treated as an indication of correctness control and analysis of financial performance based on what reflects the annual accounts and supporting documents in accordance with the existing legislation and normative acts in the field. Internal audit and risk management share the same purpose of risk control. The main limitation of internal audit compared to risk management is risk-taking. In terms of risk management, it has as its primary manifestation the consideration of the risks faced by the entity and the transition to the necessary actions to quantify them. The internal audit may provide risk management advice on the financial risks of the undertaking or even identify more clearly all the financial risks to which the entity is exposed. Corporate governance involves a set of relationships between the company’s management, the board of directors, shareholders and securities holders, by establishing good practice rules to ensure the efficient management of resources at the corporate level. In the current economic context, characterised by a continuous process of identifying and determining mechanisms and tools to increase the performance of companies, as well as to streamline corporate activity in accordance with the legislation and normative acts in the field, it is necessary to identify the *contribution to corporate performance of internal audit* and corporate risk management in the context of good governance practices.

Internal audit is a strategic and compliance function at the level of the economic entity. According to International Standards on Auditing (IAS), internal audit is an independent objective assurance and advisory activity aimed at adding value and improving the activities of an entity. Internal audit helps the entity achieve its objectives through a systematic and methodical approach that assesses and improves the effectiveness of risk management, control and governance processes. According to Internal Audit Standard

2110 'Governance', internal audit work must assess and formulate appropriate recommendations to improve governance processes in:

- adopt strategic and operational decisions;
- supervision of risk management and controls;
- ensure effective performance management within the organisation and accountability;
- promoting adequate ethical conduct and corresponding values within the organisation;
- communication of risk and control information to the appropriate areas of the organisation;
- coordinating activities and communicating information between the board, internal auditors, external auditors, other insurance providers and management.

Corporate governance, audit and risk management are closely linked in that internal and external auditors, executive managers, shareholders, directors represent some of the key governance actors with different dimensions of risk management under their responsibility.

We are of the opinion that the collaboration relationship between internal audit, risk management and corporate governance leads to increased performance within an entity, as well as to ensuring trust in the business environment, which also leads to an increase in the system of which that entity belongs, ultimately leading to the growth of the economy as a whole. History places internal audit in a close link with risk management and corporate governance, through its role in ensuring transparency of information and advice on risk management. Both internal audit and corporate governance and risk management have a clear, specific and well-structured methodology aimed at the effectiveness and efficiency of an organisation. Internal audit, corporate governance and risk management contribute to increasing an entity's performance by contributing to the achievement of its objectives, the efficiency and effectiveness of the entity's activities, strengthening the entity's credibility, creating added value, and limiting existing risks and helping to identify new risks.

2. Literature review

After overcoming the economic crisis of 1929, the internal audit acquires new dimensions as a result of the fact that it was found useful and more than both the employees involved had acquired knowledge and skills, as well as a number of methods, techniques and instruments specific to the accounting field.

In Europe, the new function of the audit took place for the first time in France in 1960, but with a severe mark from the origins of accounting control.

The internal audit design is carried out only since 1980, at which point both the originality and the peculiarities of the internal audit function are manifested.

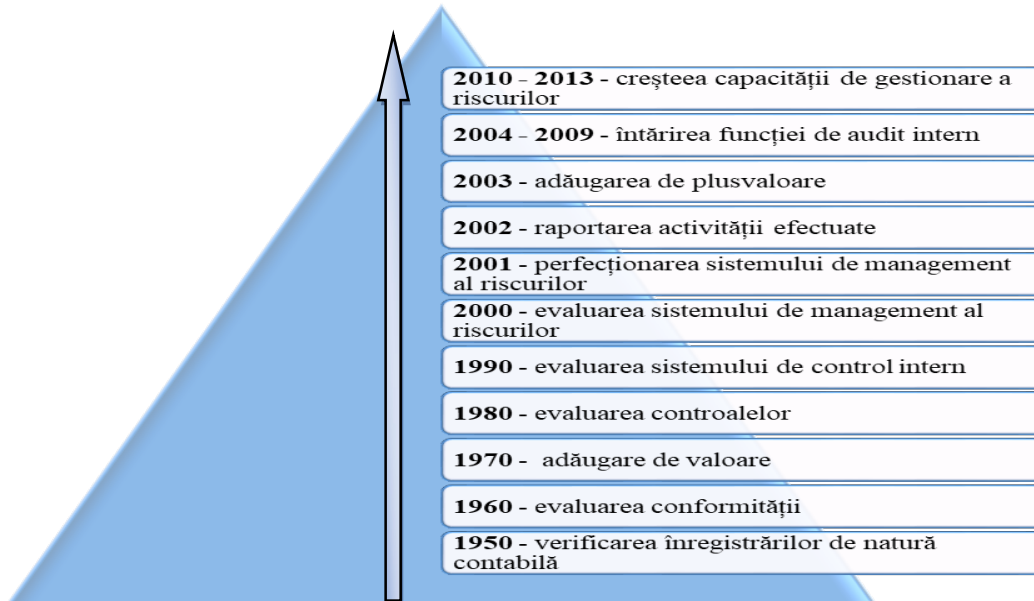
The diversity of the internal audit function was assessed by the Institute of Internal Audit, which, through successive studies carried out in 1987, 1991, 1995 and 1999 reveals a heterogeneity in the function of internal audit, its character and profile. Thus, in terms of the profile of the internal audit function during the above-mentioned period, there was a progression, not yet completed, characterised by an increased diversity that implicitly influences the internal auditor's profile. Regarding the profile of the Internal Auditor, the International Federation of Accountants (I.F.A.C.) notes that he is directly connected to the diversity of activities on the one hand, but also to *"the diversity of origins, professional training is confirmed: it explains the variety of function and competence of people and signifies that evolution is in progress."*¹

¹ Renard Jacques, Theory and Practice of Internal Audit, Ministry of Public Finance, 4th Edition, 2002, pg. 20;

The evolution of the internal audit over time was investigated by Pickett K and found a continuous transformation of the approach, as can be seen in Figure 1:

Figure 1

Evolution over time of internal audit



Source: pickup after Pickett K.H.S¹

From the above representation it is noted that at its beginning the internal audit focused on checks on the registration of transactions in the accounting records for which the qualitative indicator was defined as the number of erroneous records found.

The compliance assessment was the task of internal auditors to measure compliance with the procedures of the entity's employees exclusively for the financial and accounting area. At this stage, audits were unannounced and thus widened them as forms of verification.

Increasing the functionality of the management and control system has led the internal audit to migrate to another stage, which is to bring it closer to the management by providing it with solutions in this direction.

During the 1980s the internal audit is tailored to the needs of the management by performing interdependence checks thus identifying control levers useful in achieving the entity's objectives. The evolution of management science has significantly influenced the improvement of internal audit techniques and tools so that they contribute to the provision of independent and objective opinions on the functioning of the management internal control through the recommendations made to increase the adequacy of internal control to the needs of the entity.

The management of the economic entity has evolved at a fast pace since 1990, translating to risk management, so the internal audit was required to carry out assessments of the risk management system by identifying those risks and treating them through measures. At this stage, the internal auditor assumes specific responsibilities for the management advice, in which context the internal audit is rejoined by the absorption of the

¹ Pickett K.H.S., The internal auditor at work — A Practical guide to everyday challenges, Jhon Wiley&Sons, Inc., Hoboken, New Jersey, 2004, page no. 10;

advisory component.

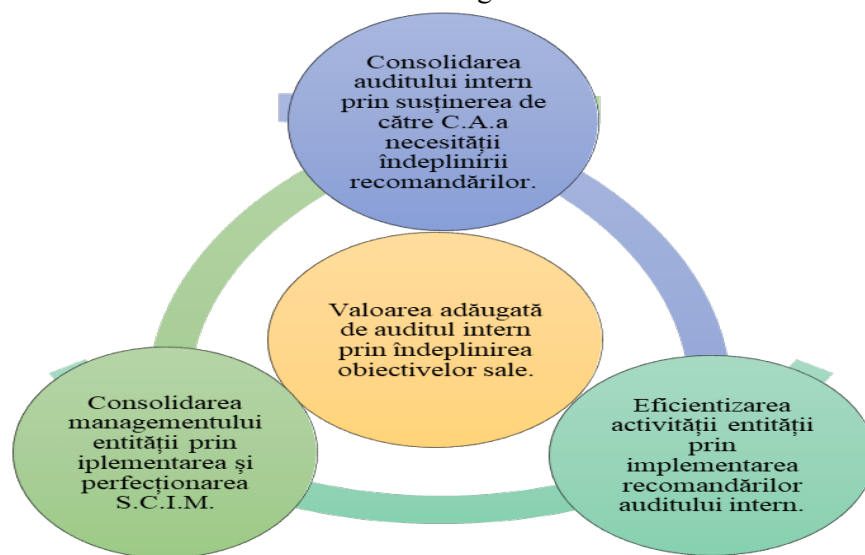
After 2000 the internal audit crosses its most dynamic period in evolution, manifesting the need for reporting at the top management level, which is reflected in the annual reports.

Although the added value of internal audit cannot always be quantified, however, the management of entities recognises the benefits of its organisation and operation. These advantages created for the entity are supported by the fact that internal auditors are able to understand in depth the operations, acts and facts carried out within the entity, which is conducive to making recommendations for improvement and useful to management.

In order to obtain added value at the level of an economic entity in the public interest it is necessary that it fulfils certain objectives as can be seen in Figure 2:

Figure No.2.

Objectives achieved by the entity to obtain added value
as a result of the functioning of the internal audit



Source: own processing

At present, despite the vicissitudes of time, the rapid evolution with disruptions to the real understanding of the role and objectives of internal audit by managers, but also by the employees involved in this activity, however, today the internal audit represents: “an important and organised, highly diversified function, the constant evolution of which makes it possible to outline the prospects.”¹

The extent of the internal audit is supported and monitored by the International Institute of Internal Audit, which records that it has over 70,000 members distributed in 120 countries.

In the paper “Internal Audit Theory and Practice” J. Renard presents the following as perspectives of the internal audit:

- expanding internal audit work and its penetration of several areas of activity such as environment, quality, joint ventures;
- the annexation of internal audit to the top level of the economic entity;

¹ Renard Jacques, Theory and Practice of Internal Audit, Ministry of Public Finance, 4th Edition, 2002, pg. 17;

- the extension of internal audit as a discipline at the level of university education and its accreditation, strengthening its position in both the educational and practical environment;
- acquire the general character of the organisation and functioning of the internal audit;
- voluntary implementation of internal audit recommendations directing management interest towards internal audit in the direction of advice;
- a double change with a major impact on the Internal Audit Capability is expected by stating that *“the development of the auditor’s advisory role and, in parallel, the aspiration for greater autonomy”*¹;
- the trend of the internal audit, which will mark the business environment in fact, is the strong manifestation of its autonomy generated by a revolutionary concept of independence and migration to autonomy, giving the internal auditor independence from the audited subjects, the voluntary practice of objectivity, independence and objectivity in relation to management, this new trend once materialised allows the internal auditor to self-refer and decide on the need to conduct investigations.

In Romania, the initial role of the internal audit was to assess internal controls, but after the advent of Law no.672/2002 on internal public audit, it constitutes an independent, objective, assurance activity, designed to add value or improve the activities of the public entity, to help the public entity to achieve its objectives through a sustained and methodical approach, to assess and improve risk management, control and governance processes efficiently and effectively.

In Romania, the internal audit has been implemented in the public sector since 1999, at the recommendation of the European Commission, as an element of harmonisation with the Community acquis, with a view to joining the European Union.

Initially, Romania entered into this process with the elaboration and adoption of Government Order No 119/1999 on internal audit and preventive financial control,² which, although it did not fully meet the requirements of the new internal audit concept, was nevertheless an important step.

Under Law No 672/2002 on internal public audit,³ updated, public entities were obliged to organise their internal audit work. Thus, all these aspects have been regulated in Romania and an appropriate regulatory framework has been implemented, accepted by the European Commission and harmonised with similar systems in the candidate countries.

3. Research methodology

The methodological objective of this scientific research is to capture the current level of knowledge in the field of internal audit, especially with regard to its strategic and compliance functions, with influences on the economic entity 's activity, in order to identify limitations and propose models and solutions, leading to the improvement of risk management through the internal audit perspective. The research integrates an analysis in time and space, of an internal audit mission by reviewing the literature and detailing an empirical study carried out at an economic entity, by applying specific procedures. With reference to the relationship *“internal audit quality — creating added value — limiting risks — increasing performance”* we tried to find answers to the question: *“What is the way internal audit commits risk management and determines better performance?”* This question is followed by the initial support questions, namely: How can internal audit

¹ Renard Jacques, Theory and Practice of Internal Audit, Ministry of Public Finance, 4th Edition, 2002, pg. 21;

² Government Order No 119 of 31 August 1999 (republished) on internal control and preventive financial control, OG No 799 of 12 November 2003.

³ Law No 672/2002 on internal public audit, updated, Official Gazette, Part I, no. 465/2002.

influence performance? What relations exist between internal audit, corporate governance and risk management? What in the internal audit increases performance?.

In order to achieve the objectives of the research, as well as the scientific research method, there is a combination of quantitative and qualitative research, the main objective being to make available to those concerned relevant models for the practical application of internal audit procedures. As a result of this research, it can be concluded that there is a direct association between the quality and depth of internal audit procedures, risk assessment and an increase in the performance of the entity.

4. Applicative approach to internal audit (A.P.I.)

Highlighting the relevance of the internal public audit activity in the practice of the economic entity analysed (public interest entity in the field of transport, with branches in the territory) is presented specifically in an A.P.I. Report, just as professional experience in connection with theoretical and methodological knowledge has guided us, without mentioning the identification data of the mission due to the fact that from a formal perspective there is enough information both in legislation, in the literature, on the websites of the authorities involved and not least in the online environment.

↳ Objectives of the A.P.I. mission.

- The assessment of how the income resulting from the management of the assets of the economic entity is constituted.
- The assessment of how the expenses related to the activity carried out within the economic entity are incurred.
- Assessment of the fulfilment of the objectives and performance criteria set out in the Mandate Contract, of the economic entity manager.

↳ How the A.P.I. mission is carried out.

- the main public internal audit techniques used: verification by: comparison, examination, follow-up; analysis; physical observation;
- main public internal audit tools used: questionnaires, interviews, tests, problem identification sheets, irregularity finding and reporting form;

↳ Materials prepared during the public internal audit mission:

- The standing file shall include:
 - Section A — Public Internal Audit Report and its annexes;
 - Section B — Administrative;
 - Section C — Documentation of the A.P.I. mission;
- The working documents file shall contain a copy of the supporting documents referred to in the Annex to the Audit Report.

In relation to the specific objectives of the audit mission and the analyses carried out during the audit mission, the audit team noted a number of aspects that contributed to the opinion of the auditors.

↳ Objective 1: Assessing how the income resulting from the activity of exploiting the assets of the economic entity is constituted.

From the situation of service contracts (revenue generators), requested by the internal auditors and provided by the audited facility, it appears that 4 contracts were concluded at central level of the economic entity, from which contract No 1/___ together with the related addenda (May-December) was selected for verification, concluded between ___, the most representative for the following reasons:

- the value of the contract (51,940.000 lei excluding VAT);
- contract period (01.05. __ – 30.04. __);
- the value of the monthly addenda (RON 7.121,000 excluding VAT) and their

number (12 addenda);

- coverage area (Regional Branches);
- subject matter of the contract (operation, maintenance, upgrading, repairs and interventions in case of ___).

Also, an essential criterion was that, at the time of the audit mission, there is a pending dispute brought by the economic entity studied to ___, claiming the amount of RON 45,198,870.24, representing uninvoiced differences in the works situations for the year ___.

Under the contract subject to audit, the economic entity constituted revenue from the provision of services on the basis of invoices recognised and accepted for payment by ___ as well as for invoices not recognised and accepted for payment by ___. The revenues generated on the basis of invoices not accepted by ___ are:

- for the year 2xxx amounting to RON 37 995 518.87 and VAT of RON 7.203.351.91;
- for the year 2xyy amounting to RON 50 917.662.98 and VAT of RON 9,674.355.96.

Findings:

From the checks carried out on the documents relating to contract No 1/___, concluded between ___ and the economic entity, it was found that:

- the economic entity did not invoice the value of the works recognised by ___, but invoiced only the amount accepted for payment under the contract;
- subsequent invoicing of services not accepted for payment (February 2xxx), are differences between works situations recognised by both the provider and the beneficiary, and the amount accepted on payment of ___ up to the value of the contract (the benefits belong to the period 01.05. ___ — 31.12. ___).

In AGA Decision No ___ and the minutes relating thereto, the *members of the AGA request that steps be taken with ___ and the other beneficiaries to recover debts and debts. The Board of Directors shall be responsible for regular review and take measures for the conduct of commercial contracts.* By decision of the Board of Directors no. ___, the *invoicing of all amounts for the works, services and services provided by the economic entity for ___ in 2xxx was approved, according to the estimates of works drawn up.* In the case of invoices issued to ___, unconfirmed no. ___, signed by the Economic Director of the economic entity, the value of RON 45,198,870.24 is mentioned, representing differences between the situations of works recognised by both the provider and the beneficiary, and the amount accepted for payment of ___ within the limit of the contract value for the year 2xxx.

Recommendations:

- the invoicing of the services will be carried out according to the contractual provisions in compliance with the provisions of Law 227/2015 on the Fiscal Code;
- the value of the works carried out and included in the works estimates will be kept within the value of the contract.

Issue Identification and Analysis Sheet No. ___

Finding:

In the year ___, the accounts of the economic entity recorded uncertain income, not incorporated at the time of the supply of the services to the beneficiary in the amount of RON 45,198,870.24 (RON 37 995 518.87 and VAT amounting to RON 703 351.91) for the year 2xxx, in account 704 *Revenue from works performed and services rendered.*

The amount of RON 45,198,870.24 represents differences between the situations of works recognised by both the provider and the beneficiary and the amount accepted for payment of ___ within the limit of the contract value. Invoices are uninvoiced differences for the period May to December 2xxx and were issued in February 20xxy. These differences are not reflected in ___'s accounting records as they were refused and exceed the value of the contract, but were recorded in the December 2xxy — variant II balance sheet of the 8 (eight) branches of the economic entity in the accounting account 418 *Clients-invoices to be drawn up*.

The intermediate report for the financial year ended 31.12.2xxx, issued by SC ___ SA, dated ___, states: *the scores showed a number of differences between the amounts not accepted by the territorial branches of ___ and the amounts recorded in account 418 Customers invoiced by the economic entity. We were unable to apply alternative audit procedures leading to satisfactory results on the balance of this account [...];*

In view of the above, it is underlined that the principles of prudence and income recognition have not been respected. Similarly, the provision of Law No 227/2015 on the Fiscal Code, as amended, *Article 155, according to which '(1) The taxable person carrying out a supply of goods or services other than a supply without a right to deduct tax, in accordance with Article 141(1) and (2), shall issue an invoice to each recipient, at the latest by the 15th day of the month following that in which the chargeable event for the tax arises, unless the invoice has already been issued.'*

Recommendation:

Entry in the accounts shall be made in accordance with Law No 82/1991* republished, Article 2. *“Accounting, as an activity specialised in measuring, evaluating, knowing, managing and controlling assets, liabilities and equity, as well as the results obtained from the activity of legal and natural persons referred to in Article 1, shall ensure the chronological and systematic recording, processing, publication and retention of information on financial position, financial performance and cash flows, both for their internal requirements and in relations with present and potential investors, financial and commercial creditors, clients, public institutions and other users.”* and Law 227/2015 on the Fiscal Code as amended.

Issue Identification and Analysis Sheet No. ___.

Finding:

The following considerations were based on the following considerations on the basis of the following considerations, based on the following considerations, justifying and taking the decision to recover by court from ___ the amount subsequently invoiced in the amount of RON 45,198, 870.24 for the period 01.05.2xxx to 31.12.2xxy:

- in the Decision of the General Meeting of Shareholders (A.G.A.) no. ___, the members of A.G.A. request that steps be taken at ___ and the other beneficiaries to recover debts and debts;
- on the basis of the decision of the Board of Directors of the economic entity no. ___ the economic entity invoiced the difference between the total value of the estimates of works recognised by ___ and the amount accepted for payment by it. The amount accepted for payment by ___ is limited to the value set out in contract No 1/___ and its addenda;
- by Act No 239/___, the economic entity notified ___ of the need to achieve an amicable conciliation in relation to the settlement of financial problems related to the non-execution of payment of the difference invoices amounting to RON 45 198 870.24;
- ___ replied to the notification by document No 59/___, from which it appears that the difference invoices were not accepted for payment, thus not justifying the presence at

conciliation, the claim being disputed, on which the parties cannot find an amicable solution;

- the economic entity shall recover the amount of RON 45,198,870.24 by bringing legal proceedings against _____. For this purpose, the economic entity paid the stamp duty in the amount of RON 455.125.22;

- judgment No 297/_____ of the Bucharest court rejects the economic entity’s application for an order for payment by _____ of the amounts claimed, considering the action to be unfounded;

- on the date _____ the economic entity appeals to the Bucharest court, which entails expenses of the judicial stamp duty in the amount of RON 227,587.61.

The costs (approximately RON 682 712.83) will be borne by the losing party.

On the basis of the decision to recover the amount of RON 45,198,870.24 by legal action, the economic entity did not quantify the risks to which the company is subject in the event of the loss of claims.

If the action brought by the economic entity is dismissed as unfounded:

- there will be significant changes in the economic and financial statements of the economic entity (customer accounts, revenues and VAT);
- legal costs of approximately RON 682 712.83 will be borne from the budget of the economic entity.

Recommendation:

All aspects that can significantly influence the company’s assets, financial statements, performance indicators and the company’s objectives included in its policy and strategy will be taken into account when basing management decisions.

↳ *Objective 2: Assessment of the performance of the expenses related to the activity carried out within the economic entity*

From the documents requested by the internal auditors and provided by the audited entity, the sample of the invoices subject to verification was selected, reflecting expenditure incurred by the economic entity in the year 2xxy. The selection of the sample was carried out in the following steps:

- based on the monthly centralised VAT purchase logs, all registrations were sorted by supplier (sorting was done electronically in EXCEL);
- from the centralised overview of the monthly VAT purchase logs, the expenditure per branch for the year 2xxx was summed up and resulted in the following ranking, according to the table:

No. crt.	Economic entity	Total branches A-H (RON)	Ranking
1.	Branch A	2.241.749,76	4
2.	Branch B	2.786.354,61	1
3.	Branch C	2.564.963,78	2
4.	Branch D	1.067.865,76	8
5.	Branch E	2.278.345,91	3
6.	Branch F	2.022.706,19	5
7.	Branch G	1.454.268.20	7

8.	Branch H	1.853.055,39	6
	Total	31.078.543,75	

- branch B recorded the highest value in the expenditure chapter, namely RON 2.786.354.61;
- the most relevant values for each supplier have been analysed. From this analysis, suppliers were noted: SC G&G SRL, SC M&M SRL, SC M&L SRL and SC SVG SRL;
- in the case of expenditure-generating contracts, it was verified whether the 4 (four) suppliers had a supply contract with the economic entity and it resulted that the purchase of products was made by direct purchase (without a contract for the supply of products).
- it appears from the electronic information sources (Internet) that the activity of the companies resulting from the sorting is:
 - SC G&G SRL has as its object of activity the marketing of: masonry materials, constructions, finishes, etc.;
 - SC M&M SRL has as its object of activity the marketing of: construction materials, installations, finishes and CAEN code 93 (Sports, recreation and fun activities);
 - SC M&L SRL is active in the sale of electrical and household appliances, lighting fixtures, electrical panels;
 - SC SVG SRL has as its object of activity the marketing (CAEN 5211), food products, beverages and tobacco — registered office in Constanta.
- on the basis of the provisions of the Director-General no. __ and no. __ stating that the A-H Branches do not make purchases of more than EUR 1200/year/CPV code, the expenditure of more than EUR 1200 for the year 2xxy (approximately 4,000 lei) was taken for analysis.

Findings:

From the invoices selected for verification at the audited economic entity — Branch B, the following were found:

- purchased through direct purchase, raw materials and materials from suppliers: SC G&G ROMANIA SRL (with registered office in Constanta and subsidiaries in Bucharest, Brasov, Cluj, Craiova, Pitesti, Iasi, Timisoara, Suceava, Piatra Neamț, Buzău), M&M FriMar SRL (registered office in Craiova), SC SVG TRADING SRL (social office in Craiova) and SC M&L SRL (registered office in __).
- there have been direct purchases of raw materials and materials the aggregate value of which exceeds the equivalent in lei of EUR 1200/year/CPV code (example: CPV code 24911200-5 Adhesives), thus not complying with the __ provision;
- the cumulative value for a product exceeds EUR 10,000/year/CPV code, the limit up to which direct purchases are admitted (example: CPV Code 24911200-5 Adhesives), failing to comply with the provisions of the legislation on public procurement in force;
- there are no supporting documents for direct purchases of raw materials and materials;
- procurement of raw materials and building materials is not covered by the 2xxx *Public Procurement Programme*.

The irregularities identified gave rise to unjustified expenditure incurred from the

economic entity's own sources.

Recommendation:

Elaboration of the operational procedure relating to the procurement activity, applicable uniformly to all branches belonging to the economic entity, in accordance with the specific legislation and the relevant legislation on public procurement.

Issue Identification and Analysis Sheet No. __.

Finding:

Non-compliance with Accounting Law No 82/1991 (republished) at Branch B by Accounting Officer I in respect of the recording in the management accounting of stocks of raw materials and materials, purchased on the basis of invoices selected for verification, results in the following:

- raw materials and materials have not been identified in the material shed, have not been recorded in storage sheets, notes of reception and finding differences, consumer vouchers, transfer vouchers;
- invoices for raw materials and verified materials are recorded in the accounts, although there are no supporting documents (report of necessity, notice accompanying the goods, etc.);
- the identified issues give rise to the distortion of the economic situation of the economic entity.

Recommendations:

- the development of an operational procedure specific to the accounting activity, in accordance with the specific legislation and incidents in force;
- performance of the monthly score between the material accountant and the store manager. Formalisation of the score by signing and dating the stock records by the material accountant.

Issue Identification and Analysis Sheet No. __.

Finding:

From the verification of the selected invoices of the suppliers SC G&G SRL, SC M&M SRL, SC SVG SRL and SC M&L SRL, it was found that:

- invoices for raw materials and verified materials, amounting to RON 579 544.22 are recorded in the accounts without a *visa Certific for PFC* and *PFC visa*;
- there are no payment orders attached to the *bank* account note for the supplier SC G&G SRL Romania, the payments being identified only in the bank statement;
- from the situation of the *Supplier Sheet* dated 31.12.__, for SC G&G SRL and SC M&M SRL, it was apparent that all invoices had been paid;
- the payments made for these invoices do not meet the legal conditions, as payment was made without a PFC visa being granted without verification of the legality, regularity and correctness of payments, thus creating the possibility of making uncontrolled and undue payments;
- please note that in the cases of VAT logs for purchases the supplier is registered under the name SC M&L SRL, on the purchase invoices is printed __ but on the website www.mfinante.ro this supplier is registered under the name __.

Recommendation:

Strengthening the internal control by developing a written operational procedure for granting a preventive financial control visa in accordance with the specific and incident legislation in force and formalised training of the responsible employees.

Issue Identification and Analysis Sheet No. ____

In view of the issues identified by the audit team, during the evaluation of the expenditure incurred at the economic entity, Form for Finding and Reporting of Irregularities No ____ was drawn up in accordance with the legal provisions in force.

Recommendation:

The extension of the research to the other branches of the economic entity, on the issues reported by the internal auditors, will be carried out by the bodies designated by decision by its management. *Appendices:*

- statement of invoices issued by suppliers SC G&G SRL, SC M&M SRL, SC SVG SRL and SC M&L SRL, for 2xxx and copies of bank statements.
- information note no. ____.

The Irregularities Finding and Reporting Form (F.C.R.I.) was drawn up on the basis of *the Problem Identification and Analysis Sheets (F.I.A.P.)* related to the verified objective, presented in Table 1.:

Table 1.

Irregularity Finding and Reporting Form

Economic entity — identification data	
Directorate for Internal Public Audit	
Name of mission:	
Assessment of management from the perspective of:	
<input type="checkbox"/> Realised revenue <input type="checkbox"/> Expenditure incurred <input type="checkbox"/> Management of external loans <input type="checkbox"/> Fulfilment of the indicators set out in <i>the Mandate Contract</i>	
Audited entity: —	
Audited period: 2xxy	
Drawn up: ____	
Supervised: Head of Service — Ec. ____	
Date: ____	
Irregularity CONSTATATION AND REPORT Form no. ____	
To: Director of Internal Public Audit Directorate	
Findings	From the documents requested by the internal auditors and provided by the audited facility, the VAT Procurement Journal, centralised at the level of the audited economic entity, selected direct purchase invoices for four suppliers of raw materials and materials as follows: SC G&G SRL, SC M&M SRL, SC SVG SRL and SC M&L

	<p>SRL The selection criteria for invoices were:</p> <ul style="list-style-type: none"> • the value of invoices (between RON 4,000 and RON 6,000; more than EUR 1000); • number of invoices per supplier; • type of purchase (direct); • the subject matter of the procurement (raw materials and materials). <p>The invoices selected for verification can be found in the accounts of the audited economic entity — Branch B.</p> <p>From the checks carried out, the following were found:</p> <ul style="list-style-type: none"> • direct purchases of raw materials and materials were made, the aggregate value of which exceeds the equivalent in lei of EUR 1200/year/CPV code, according to the provisions of the management of the audited economic entity; • raw materials and materials have not been recorded in the monthly analytical stock balance; • raw materials and materials have not been identified in the material shed; • invoices for direct purchases of raw materials and verified materials are recorded in the accounts, although there is no “passed for payment” visa, PFC visa and supporting documents (Note of receipt and finding differences, transfer receipt, consumer receipt, necessity report, etc.); • from the situation of the <i>Supplier Sheet</i> dated 31.12.2022, for the suppliers SC M&M SRL, SC SVG SRL, it was apparent that all invoices had been paid; • for the payment of the provider G&G Romania, no payment orders were identified to the Bank’s accounting note. The payment of invoices has been identified in the bank statement; • Raw materials and materials purchased from suppliers SC G&G SRL, SC M&M SRL, SC SVG SRL and SC M&L SRL and identified by the audit team are approximately RON 583 768.85.
Violated normative acts	<i>Accounting Law No 82/1991</i> ¹ (republished) Article 6(1), paragraph 2, <i>Order No 119 of 31 August 1999</i> ² , <i>Order No 923 of 11 July 2014</i> ³ , <i>Order No 600 of 20 April 2018</i> ⁴ .
Recommendation	An information note was sent to the Director-General of the audited economic entity, containing the issues set out in paragraph <i>Findings</i> , as specified in the General Rules for Internal Public Audit, concerning the <i>reporting of public internal audit activity</i> , which points out that, in case of detection of irregularities or possible damage, reporting immediately to the head of the public entity and to the authorised internal control structure.
Appendices	Situation of invoices issued by suppliers SC G&G SRL, SC M&M SRL, SC SVG SRL and SC M&L SRL for 2022.

Source: author processing

↳ *Objective 3: Assessment of the fulfilment of the objectives and performance criteria set out in the Mandate Contract, of the Director-General of the audited Economic Entity.*

The Mandate Contract No 1/___ was concluded in accordance with the framework mandate contract received from the Ministry of ___ with Act No ___ and *Law No 31 of 16 November 1990 on companies* ⁵ from 1 September 2012 for a period of 4 years with

¹ Accounting Law No 82 of 24 December 1991 (**republished**), issuing the Romanian Parliament, O.M. No. 454 of 18 June 2008;

² Ordinance No 119 of 31 August 1999 (republished) on internal control and preventive financial control, issuing the Government of Romania, published in the Official Gazette No 799 of 12 November 2003;

³ Order No 923 of 11 July 2014 (*republished*) approving the General Methodological Norms on the exercise of preventive financial control and of the Specific Code of Professional Rules for persons carrying out their preventive financial control activity, issued by the Ministry of Public Finance, published in MO No 28 of 15 January 2016;

⁴ Order No 600 of 20 April 2018 approving the Code of Internal Management Control of Public Entities, [OM no. 387 of 7 May 2018](#);

⁵ Law No 31 of 16 November 1990 on companies, published in Official Gazette No 1066 of 17 November 2004;

addendum No _____. The objectives and performance criteria are set out in the annexes to the mandate contract.

The mandate contract, its annexes and the addendum were signed by the members of the Board of Directors and the trustee, i.e. the Director-General. The mandate contract terminated at the written request of the trustee on _____.

In the meetings of the Board of Directors (C.A.) recorded in the register of minutes of meetings, the members of the C.A., the president of the C.A., the censors, the representatives of the trade union took note of the economic and financial situation of the company as well as the calculation of the established indicators that quantify the fulfilment of the performance criteria.

C.A. Decision No _____ item 3 mentions the approval of _____ and _____ notes on the fulfilment of the performance indicators related to the Director-General's mandate for September and October 2xxy.

C.A. Decision No 1/_____ item 3 mentions the approval of note E1/1/_____ on the fulfilment of the performance indicators related to the Director-General's mandate for November 2xxy.

No formalised approval (by signature) by C.A. Members _____, _____ and Annex no. _____ to the mandate contract for September to December 2xxy. Method of calculation to reduce the monthly remuneration of the Director-General in case of failure to meet the performance objectives and criteria.

The analysis of the preliminary balance sheet of the financial position at _____ and the notes to the balance sheet shows that the audited economic entity is in a difficult situation given the values of the resulting risk, liquidity and profitability indicators.

The company's difficult financial situation has been recorded in the Decision no. _____ of the C.A. as well as in the Decision of the General Meeting of Shareholders _____ item 1 stating that the members of the A.G.A. take note of the Report No _____ on the economic and financial situation of the economic entity on _____ and recommends that the executive management step up efforts to recover the losses incurred.

Findings:

The compilation of the performance indicators underlying the calculation of the reduction in the monthly gross remuneration of the Director-General in accordance with Annex 2 to the mandate contract was carried out on the basis of estimated amounts.

Between September and December 2xxy the performance targets and criteria (set by performance indicators) laid down in the mandate contract were not achieved, according to the statements drawn up by the Budgets, Analyses, Indicators and endorsed by the Board of Directors — act no. _____.

As a result of the non-achievements, the Director-General's gross monthly remuneration was reduced. The decrease was calculated on the basis of the data from the preliminary monthly verification balances, according to the performance indicators in Annex 2 to the mandate contract, the amounts obtained being estimated.

- the month of September Act No 213/_____ the calculated decrease was retained on _____;
- October Act No 248/_____ the calculated decrease was retained on _____;
- the month of November Act No E1/_____ the calculated decrease was retained on _____;
- the month of December Act No E1/_____ the calculated decrease was retained on _____.

In the year 2xxy were invoiced to _____ services outside the contract, which were

not accepted for payment (it is brought in court proceedings that are in progress) whose value is RON 37 995 518.87 and VAT amounting to RON 7.203.351.91.

In the year 2xxy were invoiced to ___ services outside the contract, not accepted for payment, the value of which is RON 50,917,662.98 and VAT amounting to RON 9,674.355.96.

The amounts of the income, expenditure, arrears, receivables accounts may be materially altered by the outcome of the process open to ___.

By default, the performance indicators that are calculated on the basis of these data can be significantly modified.

The performance indicators calculated for the year 2xxy consist of:

- income — amounts consisting of the benefits to ___ outside the contractual value and which are not accepted in the amount of RON 50 917.662.98 — uncertain.
- expenditure — increases and penalties for failure to pay within time the VAT collected from the issue of invoices for supplies not accepted by ___ for the year 2xxx — uncertain.

During the implementation of the internal public audit mission, the monthly decrease in the remuneration of the Director-General was recalculated on the basis of the data from the corrected monthly verification balances (but which comprise these expenditures and uncertain revenues).

Recommendations:

- Definition and formalisation of the working procedure for the calculation of the performance indicators set out in Annex 2 to the mandate contract in accordance with the provisions of *Order No 600 of 20 April 2018*¹.
- To calculate the performance indicators set out in Annex 2 to the mandate contract so that the indicators on the basis of which the gross remuneration of the Director-General is reduced is drawn up according to the amounts included in the final balances of the months.
- Clarify the amounts in dispute with ___ and restore the calculation of the reduction in the monthly gross remuneration of the Director-General as appropriate.

Issue Identification and Analysis Sheet No. ___.

↳ *Opinion of the audit team:*

↳ *Objective 1: The assessment of how the revenue resulting from the management of the assets of the audited economic entity is constituted.*

No assurance can be given on the audited contract No 1/___, concluded between ___ and the audited economic entity, given that part of the revenue generated on the basis of invoices not accepted by ___ is the subject of a pending commercial dispute.

↳ *Objective 2: The assessment of the performance of the expenditure related to the activity carried out within the audited economic entity.*

As the internal auditors detected signs of fraud, the objective was suspended. The Finding and Reporting of Irregularities Form No 2/___ was drawn up, in accordance with the legislation specific to the internal audit, the operational procedure *Finding and Reporting irregularities and submitted to the head of the internal audit structure within the audited economic entity, which sent the General Manager, Information Note No 116/___, which entrusted the C.F.G. structure with the verification of the issues raised.*

¹ Order No 600 of 20 April 2018 approving the Code of Internal Management Control of Public Entities, [OM no. 387 of 7 May 2018](#);

↳ *Objective 3: Assessment of the fulfilment of the objectives and performance criteria set out in the General Manager's Mandate Contract with the audited economic entity.*

No reasonable assurance can be given as the objectives and performance criteria set out in the mandate contract of the general manager of the audited economic entity for the period September to December 2xxx have not been met.

5. Conclusions

The fundamental objective of the research paper was the analysis of the internal audit implications on risk management under the conditions of good corporate governance practices with effects on performance, in short the analysis of the internal audit-governance-risk relationship and its impact on performance. In order to achieve this objective, we have carried out an analysis of the literature in the field, with a view to avoiding false leads and the risk of missing essential elements relating to research and an empirical analysis at an economic entity in the field of transport. Internal audit, corporate governance and risk management are closely linked, in that internal auditors, executive managers, shareholders, directors, are key actors in an entity that have at their responsibility different dimensions of risk management Internal audit is of major importance within an entity at operational level in terms of testing compliance with the entity's policies and rules on corporate governance, risk management processes and control systems. Also, internal audit, corporate governance and risk management contribute to increasing the performance of an organisation by contributing to achieving the objectives pursued by the entity, creating added value and limiting risks The efficiency of internal audit work leads to a higher probability in identifying and reporting financial distortions and correcting them, helping to improve risk management in identifying and reporting distortions in the entity, which leads us to the idea that it can contribute to better performance. The collaboration between internal audit and risk management leads to an increase in performance, an efficient allocation of the company's resources and an improvement in communication at the management level, providing a clearer picture of the risks that the company faces in its activity.

References:

1. Accounting Law No 82 of 24 December 1991 on Accounting (**republished**), issuing the Romanian Parliament, published in Official Gazette No 454 of 18 June 2008.
2. Law No 31 of 16 November 1990 on companies, published in Official Gazette No 1066 of 17 November 2004.
3. Law No 672/2002 on internal public audit, updated, Official Gazette, Part I, no. 465/2002.
4. Ordinance No 119 of 31 August 1999 (republished) on internal control and preventive financial control, issuing the Government of Romania, published in MO No 799 of 12 November 2003.
5. Order No 923 of 11 July 2014 (*republished*) approving the General Methodological Norms on the exercise of preventive financial control and of the Specific Code of Professional Rules for persons carrying out their preventive financial control activity, issued by the Ministry of Public Finance, published in Official Gazette No 28 of 15 January 2016.

6. Order No 600 of 20 April 2018 approving the Code of Internal Management Control of Public Entities, issuer S.G.G., published in Official Gazette No 387 of 7 May 2018.

7. Pickett, K.H.S., 2004. *The internal auditor at work — A Practical guide to everyday challenges*. Jhon Wiley&Sons, Inc., Hoboken, New Jersey.

8. Renard, J., 2002. *Theory and Practice of Internal Audit*. Ministry of Public Finance, 4th Edition.