GENERAL ASPECTS ON HOW TO APPROACH THE INTERNAL AUDIT MISSION

BOGDAN RĂVAŞ [*]

ABSTRACT: *Performing the audit activity involves determining the major areas of the audit by selecting the activities in the auditable areas based on the analysis of the risks associated with these activities. Depending on the risk profile of the organization, internal auditors may decide to pay more attention to either testing direct controls or monitoring controls or both.*

KEY WORDS: *audit, mission, plan,risks,public*

JEL CLASSIFICATIONS: *B21, M42.*

1. INTRODUCTION

The scientific approach of this article was based on the analysis of performing the planning activity that involves determining the major areas of the audit and identifying the risk-carrying activities. Planning should be done taking into account the time needed for the audit missions.

The audit mission provides internal auditors with the opportunity to examine the extent to which the significant inherent risks selected in the audit plan are or are not improved by effective internal controls at a level considered acceptable by the management of the organization. The purpose of the audit mission is to provide an opinion to management based on the conclusions reached during the mission. At the same time, in order to determine whether all tested tests improve the inherent risks analyzed, the internal auditors should quantify the residual risks, following the same methodology as that outlined in the sizing of inherent risks.

Regarding the timing of mission-related audit work, practices and literature offer several step-by-step models.

---

[*] *Lecturer, Ph.D., University of Petroşani, Romania,* ravasbogdan@yahoo.com

Although, reporting marks the end of the audit engagement, in fact internal auditors have some post-audit responsibilities, which we will discuss later in this paper.

However, it should be noted that any conclusion reached by an internal auditor during the missions must be based on sound and relevant professional evidence and reasoning. In other words, every action, decision, conclusion or reasoning must be documented.

The professional rules specify that the documentation collected by the internal auditors can be structured into two major categories: permanent audit files or current audit files. The rationale for the separation between the two informational sections is similar to that used by external auditors. Permanent dossiers contain information and documents that are relatively stable over time from the point of view of their usefulness and relevance, while current dossiers aggregate documents and information specific to a single internal audit mission. At the same time, the HA rules have the qualitative characteristics that the information collected by internal auditors must meet. Thus, the information (samples) must be:

• sufficient;
• pertinent (appropriate, appropriate information);
• useful;
• convincing, that is, it can be used to make logical and reasonable conclusions.

Good knowledge of professional standards and the specifics of their organizations is the best benchmark in establishing the mission program, the actions to be taken and the necessary documentation. Documentation standardization can provide convenience and comfort in accomplishing the mission, as it involves collecting only that information that is required to complete standard documents.

On the other hand, the standardization of the documentation presents a number of inconveniences, including: particular problems that can escape unnoticed and the limitation of the professional judgment of the internal auditors.

2. DISSCUSION ON PROPER PLANNING THE INTERNAL AUDIT ENGAGEMENT

Firstly, it should be noted that the planning of the mission should not be confused with the annual audit plan. Planning the audit mission is primarily intended to determine the extent of its scope by highlighting the following important issues:

• motivation of the audit mission: why does the mission take place?
• the objectives (not of the mission but of the processes to be audited), the risks and controls to be examined
• the work program developed in accordance with the internal audit procedures manual
• the extent of the scope of the mission, with the explicit specification of the processes excluded from the mission
• the team of auditors who will carry out the mission
• the amount of time that the mission will take place
• the recipients of the mission plan, the interim reports and the final report of the mission.

But, in order to draw up the mission plan and the work program, the internal auditors undertake a series of preliminary activities - "customer knowledge." Although the syntax used - "customer knowledge" - seems absurd in the case of internal auditors, since they are in many cases permanent employees of the organization, in reality it is not so. Why? Because it's not just about the fact that in a complex organization its activities are well known to all its employees, but also because the company's business and activities evolve over time. Thus, even if it is a recurring mission, the auditors need to be familiar with these activities and developments. Moreover, it is necessary to document this step. During this stage, the auditors use a series of specific audit techniques and procedures such as: observation, interviews, questionnaires, collection and study of internal regulations and relevant legislation, organization charts, graphs, statistical analyzes and comparisons, etc. It must be said that this preliminary knowledge of the client is not done by chance.

3. IDENTIFYING PARTICULARITIES OF THE AUDIT ENGAGEMENT

The onset of this stage is marked by the meeting / opening meeting of the mission. Although it is placed some time after the audit mission's work began at the planning stage, its organization should not be ignored, since its main role is to provide an opportunity for both auditors and audiences to know teams and interlocutors, full understanding of the objectives of the audit engagement, the procedures used, the limits of the mission of the resources available, etc. Last but not least, the opening meeting gives internal auditors, team members the de facto authority to carry out the mission, and allows for their activities to be coordinated with auditors.

Most of the internal auditors qualify this stage as "outside their comfort zone," given that audiences' perception is often a disregard for audiences. This mentality, often difficult to overcome, perceives the activity of the internal auditors as an overlap with internal control, risk management or even external audit activities. Moreover, internal auditors' interventions related to the assessment of the effectiveness and efficiency of internal controls through interviews, discussions, etc. creates a false impression on audiences that auditors "have no idea what they are auditing, but they have a claim to make recommendations." In this context, it should be stressed that internal auditors should not even try to fulfill the responsibilities of those whose activities are audited, but only to examine whether "de facto" controls function as they should, if internal regulations and procedures are respected and if they really prevent the risks taken into account. But this review must be documented so that internal auditors can demonstrate with evidence that their views expressed to the management of the organization are based on actual assessments made on the spot.

During this phase, internal auditors are concerned about two major issues:

a) examine whether for the audited section:

• Is there a process by which the risks are identified and evaluated?

• Operates a control system?

b) to evaluate the internal controls used to mitigate identified risks:

• direct controls

• monitoring controls.

Regarding the first issue, the risk register is mandatory. It needs to be detailed and updated with information that auditors will collect during this stage of the mission. The process of evaluating and updating the risk register is iterative. Structuring it in the format of a computerized database facilitates the creation of connections with the various worksheets and audit procedures required to be carried out at this stage or with the traditional documentation used (minutes, minutes, control questionnaires, identification and analysis sheets problems, etc.).

The assessment of internal controls (direct and monitoring) can also be attached to the database, which will allow easy determination of residual risk. The existence of internal controls should be tested, especially those that have a significant effect on inherent risk. Thus, the determination of the control score is useful to assess the effects of the internal controls tested on the risks considered. The control score (CS) can be algebraically dimensioned according to the following relationship:

$$CS = IR - RR$$

where:
RI - value assigned to inherent risk
RR - value attributed to residual risk

Naturally, any auditor would expect to get a higher score on the control score. While a null value would most likely indicate the ineffectiveness of the internal controls tested in improving that risk, a negative score should raise questions as to either the inherent risk assessment or the identification of the related controls or both.

Procedures used to test internal controls include compliance tests, reconciliations, computerized tests, tracking tests, inductive tests, etc. Tracking tests are useful in checking the coverage of internal controls.

In other words, through auditing tests, the auditor may identify those risks that are not covered by internal controls. Inductive tests are useful in verifying the effective operation of internal controls. Inductive tests allow the auditor to identify those controls that, although they exist, do not function properly in preventing or mitigating risks.

Although, in principle, control tests do not differ from those used by external auditors, there is, however, a significant difference to be noted: the purpose of testing. While external auditors apply these tests with the primary purpose of detecting deficiencies that generate errors in the financial statements, internal auditors aim to test the existence and proper functioning of internal controls. Depending on the risk profile of the organization, internal auditors may decide to pay more attention to either testing direct controls or monitoring controls or both. For example, for organizations with a low risk profile, internal auditors are likely to focus their attention on testing follow-up controls. At the opposite end, in organizations with a high risk profile, auditors will probably want to test primarily direct internal controls.

During this stage, auditors may face situations where they require external consultancy. Such findings should preferably be avoided, given that both the actions leading to the preparation of the annual plan and those specific to the mission planning phase were, among other things, aimed at identifying such issues. However, sometimes unplanned situations also arise, requiring not only a review of the mission plan, the annual plan, but also the budget allocated to the department. In this sense, the head of the internal audit department will need to have sufficient diplomacy to expose the matter to the management in order to obtain the necessary approvals and the mission can continue without incidents. However, for justified reasons (which internal auditors have to seriously consider), management may reject the internal audit department's requests, in which case the rules indicating that auditors are required to report the imposed limitations and their effects on the results of the engagement.

As an excellent practice of auditors in multinational companies with a rich experience in internal audit missions, it is worthwhile documenting the strengths of the internal controls being evaluated. It is preferable that the final report of the auditors should contain not only the "bitter pill" but also the positive aspects found by the auditors. Such communication facilitates the opening of management to the work of the internal audit.

Samples obtained on the basis of the applied control tests will allow the auditor to assess the residual risks, a key aspect that will condition the views contained in the audit report.

4. PREPARING RELEVANT REPORTS

In order to provide an assurance (an opinion) in the audit report, the residual risk assessment is a precursor to the report. Using the same rating scale as the inherent risks, internal auditors should determine to what extent the internal controls tested put those risks within the limits of the risk appetite of the management. At the same time, determination of residual risk allows auditors to verify the accuracy with which inherent risks have been assessed. We recall that, in principle, the control score should be positive or, at most, null, because a negative value can not be interpreted otherwise than by the fact that the control mechanisms attached to that risk have the effect of accentuating the risk instead of improve.

If the head of the internal audit department finds that directors have accepted a residual risk level that may be unacceptable to the organization, the head of the internal audit department should discuss this with executive management at the highest level. If they can not make a decision on residual risk, the head of the internal audit department and executive management should address the council to resolve this situation.

For residual risk whose significance falls within the range of [1-4], internal controls are efficient and effective because they bring the respective risk under the control desired by the organization's management within the limits of risk appetite. The respective risks and associated controls will be presented in the audit report. The reason we do that is to evidence that the risks and processes have been audited.

For residual risk the significance of which falls within the range of [5-8] reveals a situation sometimes difficult to solve in practice through internal controls: either the consequence or the likelihood of the risk is high. Of these, very likely, management will have to decide their acceptance at that level. Internal auditors should consider the possibility of identifying effective internal controls to mitigate these risks, including the cost of their implementation. The audit report should contain a distinct section dedicated to both the presentation of the auditor's conclusions regarding these risk categories and associated controls and the recommendations.

For residual risk the significance of which falls within the range [9-14], it is obvious the inability of the internal control to improve the current risks to an acceptable level for the management of the organization. Mandatory, corrective action is required, as there is a great danger that some objectives can not be achieved. A separate section of the audit report should detail these findings and include recommendations on the correction of internal controls deficiencies.

For residual risk whose significance falls within the [15-25] range, the organization's objectives are in danger of not being reached either now or in the foreseeable future. These risks should preferably be improved by implementing corrective action programs to bring them to an acceptable level.

Summarizing the situations outlined above, internal auditors will need to include in the audit report their conclusions on:

- risks that are within the limits of risk appetite due to internal controls used by the organization;
- risks that management: either accept them; either adopt measures for their removal, transfer or improvement;
- risks that are not within the limits of risk appetite and risk

The program of measures has to be agreed to improve risks to the organization's risk appetite.

Regarding the program of measures, there are opinions that argue that it should be an integral part of consultancy missions and not insurance. Internal Audit Standards however state that internal audit creates added value and should contribute to better corporate governance of the organization. In addition, the auditors are required, on the basis of the rules, to report in the report "the applicable objectives, scope, conclusions, recommendations and action plans. Under these circumstances, the demarcation line between the two types of services is extremely fragile. in practice, there are many internal auditors who make recommendations included in the corrective action programs addressed to management. It is the management of the organization that will decide whether to implement these programs totally, partially or modified. In addition, to avoid possible accusations, a separate consultancy contract may be considered at the request of the management of the organization but the auditing team that has formulated the program of measures accepted by the management should not participate in its implementation in the context of the audit engagement.

Finally, the audit report is an official document addressed to the management of the organization, often perceived as the "visible" product of the work of internal auditors, and it is therefore very important that the report to be descriptive, correctly written, grammatically, spelling and punctuation correct, clear and concise. The internal audit rules do not prescribe a standard format of the internal audit report. In practice, it is customary for each section of the report to provide an opinion of the associated auditors, and ultimately to have a global opinion paragraph. The audit report could be structured into four distinct sections, which together can form a final report:

1. a preliminary (summary): it contains the conclusions, actions to be taken, the motivation and objectives of the mission, the risks and the processes audited. The

summary, in a concise form, can be submitted individually to the stakeholders (audit committee, auditors and management of the organization) or together with the other sections of the final report.

2. essential shows: Details the residual risks in the [9-25] ranges well above the level of risk appetite for driving. in their case, details, in particular of their consequences in the event of their occurrence, of the necessary corrective measures.

The priority destination of this section is for managers directly involved.

3. significant risks: provide details of the risks above the risk appetite level (range [5-8]), but which will either be accepted by management or be mitigated by condominium measures, effective from the point of view of implementation costs. In appropriate cases, a description of the proposed controls may be included. The priority recipients of this section are directly involved managers.

4. report on processes, controls and risks: although it is often a long section, the content is complex and useful to all stakeholders.

As regards deviating from one or more audit standards in the implementation of the mission, the rules stipulate that auditors are required to specify the following in the report:

a) the non-observed norm (s);

b) the reasons for the deviation;

c) the effects of deviations on the results of the mission.

The audit report must be sent and communicated to all interested parties within the organization. if the addressees of the report include third parties outside the company, the head of the audit department is required to ensure that he has received from the management of the organization the authority to disclose the report to third parties. However, under such circumstances, the internal audit report should contain restrictions on the distribution and use of third-party results.

When, following the dissemination of the final report, errors or omissions have been discovered in its contents, it is necessary to correct the report and redistribute it to all recipients of the original version.

5. CONCLUSION

Before formulating the final report, there is a cautious practice to discuss the preliminary findings of internal auditors during the engagement with the audience and the senior management of the organization. Far from being an interference in the work of internal auditors, this practice allows prompt adoption of corrective measures, mutual information, good coordination and communication, avoiding unpleasant surprises in the meeting / closing session. The drafting of the final report is based on the exchange of opinions between auditors and audits, logically argued opinions supported by the evidence collected. There are also more delicate situations where the audited disagree with the auditors' conclusions; however, if the auditors consider that the arguments presented are not convincing to change their views, they may "ignore" the audited' complaints and maintain their conclusions in the final report. Obviously, in such cases, more than ever, the mission closure meeting will be an event in which auditors will have to justify their choice with unbeatable evidence.

Often, as outlined above, the results of internal audit engagements include action programs agreed by the organization's management to correct the weaknesses of internal controls examined by auditors. For auditors, without being considered as consulting missions, monitoring the progress of subsequent implementation of these programs is a post-audit responsibility. Moreover, audit rules oblige the Head of the Internal Audit Department to set up a follow-up to the implementation of the results so as to monitor and ensure that management measures have been implemented effectively or that senior management has agreed to, and take the risk of not taking any action.

REFERENCES:

[1]. Bătrâncea I., Dumbravă P. (2007) *Controlul si auditul financiar al entitatii economice*, Ed. Risoprint, Cluj Napoca

[2]. Dănescu T. (2007) *Proceduri si tehnici de audit financiar*, Ed. Irecson, Bucuresti

[3]. Ghiţă M. (2009) *Audit intern*, Editia a II a, Editura Economică, Bucureşti

[4]. Popa I., Man A. (2009) *Auditul financiar de la teorie la practica*, Ed. Risoprint, Cluj Napoca

[5]. Răvaş B. (2016) *Control, audit şi guvernanţă*, Editura Universitas, Petroşani

[6]. Răvaș B. (2017) *Study on planning the internal public audit missions at the level of the municipalities of Romania,* Annals of the University of Petroşani, Economics

[7]. Hotărârea Guvernului nr. 1086/2013 pentru aprobarea Normelor generale privind exercitarea auditului public intern

[8]. Legea nr. 672/2002, privind auditul public intern republicată