

STUDY ON THE PROCEDURES USED IN THE INTERNAL AUDIT ACTIVITY OF THE ASSETS IN THE MINING SECTOR

BOGDAN RĂVAȘ *

ABSTRACT: *In certain situations, the improper operations are obvious, for example, the unauthorized acquisition by employees of personal goods or, more importantly, theft of money by recording a fictitious purchase in the purchase log, remains the concern of high level management, which can avoid certain internal rigor. If the control mechanisms aimed at detecting inappropriate or non-existent operations are inadequate, then a thorough examination of the supporting documents, inspection of the respective assets is required.*

KEY WORDS: *audit, mission, assets ,risks, mining.*

JEL CLASSIFICATIONS: *B21, M42.*

1. INTRODUCTION

Considering the information obtained by the person in charge with control, on the occasion of the general knowledge of the company, as well as with the occasion of the pro-forma identification and evaluation of the listed control mechanisms, the control risk related to the acquisition of fixed assets can be estimated.

As a rule, a matrix is developed in which the control objectives related to the operations are found on the columns, and the key internal control mechanisms and / or the weaknesses of the internal control are inserted on the lines.

The control risk is assessed for each objective and can be declared small, medium or large, depending on the strengths or weaknesses accumulated during the understanding of the internal control.

* Lecturer, Ph.D., University of Petroșani, Romania, ravasbogdan@yahoo.com

We emphasize that this quantification, on the one hand, represents a critical moment of the mission, because it fundamentally affects the controller's decisions regarding the tests of the control mechanisms and the substantial evaluation of the operations, and, on the other, it is largely subjective.

2. DISSCUSION ON PROPER PLANNING THE INTERNAL AUDIT PROCEDURES

After the controller has identified the key mechanisms and shortcomings of the internal control and has estimated the control risk, it must be decided whether the substantial tests can be sufficiently reduced to justify the costs involved in performing the control mechanisms tests.

In other words, an analysis of the performance of the internal rigor testing, versus the direct substantive approach of the management of tangible fixed assets, is performed. It makes no sense to keep spending on identifying control mechanisms, estimating the control risk below the maximum level and testing the rigor, if this will not allow a reduction in the amount of substantial testing.

For designing control mechanism tests and substantial asset purchase tests, it is useful to recall that non-capitalization of an effort to purchase an asset or recording a purchase for an incorrect amount affects the financial position until the company disposes of the asset.

The profit and loss account is impaired until the asset is fully amortized. The reasoning is similar for excessive capitalization. In both cases, the financial information provided by the company is altered.

Normally, the starting point for checking the purchases of the current year is a summary table of all purchases recorded in the accounting records during the year, obtained from the client.

A typical table of this kind presents separately each purchase and includes the date of purchase, the supplier, the description of the asset, a statement of whether the asset is new or used, the life of the asset, the method of depreciation and the initial cost. The client obtains this information from the systematic file of the fixed assets, and the controller will obtain assurances, at this time or later, that the list is in accordance with the reality, complete and accurate.

The guiding idea is that the controller has the confidence to gain control over the internal control of the control applicant. In addition, if the control mechanisms work efficiently, the efficiency of internal control work can be significantly increased. The key mechanisms of the internal control, the typical tests of the control mechanisms and the substantial tests of the operations corresponding only to two of the control objectives related to the operations are summarized in the table.

In order to analyze the table, it is important to correlate the internal control mechanisms with the control objectives related to the operations, the tests of the control mechanisms with the internal rigor and the substantial tests of the operations with the monetary errors, which could be present or absent depending on the shortcomings and the advantages of the internal control.

Table 1. Synthesis of two audit objectives related to purchases of fixed assets, risk reducers, typical tests thereof and substantial operations reviews

Control objective	Key mechanism of internal control	Tests of control mechanisms	Substantial tests typical of operations
The purchases recorded correspond to the goods received and are in accordance with the interests of the client - appearance.	The purchase request, the purchase order, the receipt report and (the invoice are attached to the declaration "approved payment").	Examine the documents in the "good payment" package to determine their existence and compliance.	Check the purchase log, large ledger and systematic file of fixed assets and debt to detect large and unusual amounts.
	Purchases are approved at the appropriate hierarchical level.	Examine the approval statement and its appropriateness.	Examine the supporting documents to determine their reasonableness and authenticity.
	The computer accepts the purchase record only for authorized suppliers from the systematic file.	Try to record transactions for valid and fictitious suppliers.	Examine the systematic file of the asset providers to detect unusual suppliers.
	The reception commission is sufficiently independent and competent.	Examine the existence and proper functioning of the reception committee.	Examine purchased assets.
	The invoices of the suppliers, the minutes of the reception, the orders of purchase and the requests of supply are verified internally.	Examine the mention of internal verification and analyze the reasoning used for this occasion.	Compare the purchases of fixed assets with the systematic file of fixed assets.
Existing purchase transactions are fully recorded - exhaustion.	Purchase orders, receipt minutes and "payment receipt" declarations have a continuous numbering and are non-renewable.	Check the continuity of the numbering of the purchase orders, the receipts and the "approved payment" declarations one or more short periods and justify the canceled documents.	Compare the operations in a sequence of receipt minutes with the purchase log. Compare the operations in a supplier invoice file with the purchase log.
	The graph of circulation of documents.	Examine the "no leaks" movement of a sample of purchase invoices.	Analyze the atypical content of current expense accounts that may have affinities with financial assets.

We mention that the set of control procedures defined and called for a control commitment will differ depending on the internal control and other circumstances specific to the entity examined.

We appreciate that this is not only about whether the acquisitions of fixed assets are presented through the financial statements to the extent that they appeared in the reference exercise, but also if they are related to the legal interests of the controlled entity. In our opinion, this connection is given by the possibility of connecting the acquisition with the company's objectives and includes: the reality, the necessity, the opportunity and the legality of the operation.

Thus, the professional reasoning of the controller cannot avoid the suspicion of fraud with the association of employees and especially managerial fraud, with possible anchors in the process of "dirty" money. He should assess whether these represent fixed assets entered into the assets; they exist physically, the risks and benefits associated with owning assets belong to the company.

Leaving aside the high management spheres and generally valid organizations, one of the important mechanisms of internal control consists in the existence and independent and competent functioning of the commission of reception of the tangible fixed assets entered in the unit. In the situation of nonexistence, less likely, although its competence may be a problem, or of the improper functioning of this "stallion", the risks to which the controller is exposed will increase exponentially and will cause reactions.

Generally speaking, if the controller is convinced that the control mechanisms related to this objective are adequate, tests aimed at detecting inappropriate or non-existent operations can be considerably diminished. The appropriate control mechanisms will probably prevent the company from registering as operations the assets that are rather for the benefit of the management or employees of the company, than of the controlled entity, taken as a whole.

Existing purchases are fully recorded - completeness. Failure to register the purchase of goods received directly affects the balance of liabilities and could lead to an overvaluation of net profit and equity, at the opposite pole being the non-mobilization of financial efforts. For these reasons, we consider that the persons in charge of the control should be very careful when verifying the objective of completeness. In certain cases, performing detailed information tests, in order to determine if there are unregistered operations, could be difficult, and the controller has to rely on internal control mechanisms in this regard.

For example, the introduction of efforts that require immobilization directly in the expenses of the exercise can be detected by the controller when evaluating the works and services purchased and leads, among others, to reconsider the statements of management, control environment and control risk.

On the other hand, given that purchasing verification usually consumes a considerable amount of resources, effective and adequately tested internal control mechanisms could significantly reduce costs.

It should be noted the importance of examining suppliers' invoices and related documents in the verification of purchases of production equipment. In fact, the most common control test used to verify the inflows of fixed assets consists of examining

the substantiation of the procurement program, the contracts, the necessity-opportunity reports, the purchase orders, the invoices of the suppliers and the minutes of receipt-placing in function.

In addition to the checks made in the control mechanisms tests and the substantial tests of the operations, it is often considered necessary to carry out additional tests, due to the complexity of the majority of the operations related to the equipment and the large significance of the amounts.

As a rule, an examination of the supporting documents of each purchase is not obligatory, but it is normal to check the large and unusual operations performed throughout the year, as well as a representative sample of typical purchases in this category.

The depth of the verification depends on the estimated control risk for purchases and the significance of the asset entries. We consider it very important that the person in charge of the control understands the nature (content) of the very large purchases, the atypical ones and invariably resort to professional skepticism.

Substantial tests in the area of purchases are performed by comparing the amounts in the invoices of the suppliers with those recorded in the internal accounting records. The controller must be aware of the client's capitalization or capitalization policies in order to determine whether the purchase transactions are recorded in accordance with the applicable accounting reference and whether their accounting treatment is consistent with previous years.

For example, the controller should pay attention to the possibility of significant costs of transport and installation of equipment, as well as the purchase of new equipment through the disposal of old equipment, obtaining the reimbursement of a certain part of the value of the old equipment. This reimbursement can occur in company accounts or in foreign accounts, eventuality that causes the controller to confirm the completeness of the contractual clauses, etc.

3. ILLUSTRATION OF THE USE OF ANALYTICAL PROCEDURES

The analytical procedures can be used both in the phase of understanding the internal control and in the estimation of the related risk. In this regard, the table illustrates methods of analysis through indicators and trends commonly applied in the case of fixed assets.

Table 2 Analytical procedures applicable to depreciable assets

Analytical procedures applicable to depreciable assets

Analytical procedure	Possible error
Compare the input value of the assets reported through the financial statements with the value of the scheduled entries.	Timely purchases more or less objectively motivated.

Compare the net book value of fixed assets with the level of sustainable financing sources.	Any shortcomings regarding the adequate financing of the fixed
Compare with previous years the ratio between depreciation expenses and gross cost of production equipment.	Incorrect presentation of the costs related to depreciation and accumulated depreciation.
Compare the purchase prices of the client with their own information obtained in the field from other audit missions, from the commodity exchange, etc.	Distortions, most often intentional, of purchase prices.
Compare the monthly or annual expenses for repairs and maintenance, consumables and other similar accounts with previous years.	The passing on of sums that should have been capitalized.
Compare with previous years the ratio of production costs to certain production indicators.	The existence of unused or discarded equipment, but which were not disclosed.

As can be seen, the analytical procedures are used to evaluate the probability of errors both in the records of fixed assets, implicitly in the field of purchases, as well as in the continuity of the existence and use of the respective assets by the company.

We mention that the analytical procedures can be used with different intensities throughout the control mission. The suggestiveness of the analytical procedures used depends on a number of factors, including the nature of the client's activity. For these reasons, they are not represented in the figure in any of the stages, the appeal is consistently impregnated by the professional reasoning.

Based on the deviations detected through the analytical procedures and especially the results obtained in their motivation, with direct implications on the risk, the strategy and the plan, the auditor can guide the process of designing and carrying out his mission.

4. CONCLUSION

The existence, functioning and development of an economic entity involves the consumption of financial means materialized in goods or services purchased. The expected benefits from their exploitation are obtained in the current period, or in future periods. If the benefits are obtained during the current period, the value of the consumed goods and services becomes an expense during the same period. If the benefits are expected in future periods, then the values of the goods and services will be considered as fixed assets during the current period and the payments made for their purchase will be capitalized (capitalized, used in the following periods).

The fixed assets represent assets and values that are used for a long time in the entity and are not consumed at the first use. They gradually transmit their value to the products to which they obtain participation.

The points of view that differentiate the fixed assets determined the following typology of fixed assets:

- intangible assets (intangible or intangible investments);
- tangible fixed assets (tangible or tangible investments);
- financial assets (long-term financial investments).

Except for the land, the fixed assets have a limited existence while they are consumed in the process of obtaining income.

Depreciation is a way in which the cost of fixed assets is incurred during their useful life. Amortization expense represents the fraction of the cost of fixed assets used during an accounting period. At the same time, depreciation is the element of determining the remaining value of the fixed assets, a value that is included in the balance sheet.

There is the notion that, by recording depreciation expenses, resources are provided to replace the fixed assets at the end of their useful life. Even if, in parallel with the amortization record, the entity would set aside cash for this purpose (which is not the case in reality), the amount accumulated at the end of the useful life of an asset may be insufficient for its replacement. Inflation or technological progress can lead to an increase in the cost of replacement.

The fixed assets produce income for the entire useful life, which is at least one year. Due to their timely use, as well as to the action of environmental factors and technical progress, the economic benefits associated with the fixed assets are consumed. The value expression of this consumption is depreciation, in fact the expense with the fixed assets.

The valuation of fixed assets takes place on the occasion of the first recognition in accounting; at the date of inventory; when preparing the balance sheet and upon ceasing recognition in accounting. The valuation of the tangible and intangible assets is made following the same rules, with the mention that the intangible assets (due to their components and particularities) also impose rules specific to each intangible element.

The documents specific to the fixed assets serve their synthetic and analytical accounting. The accounting of fixed assets uses material and non-material economic assets accounts (according to the economic content), which are asset accounts (according to the accounting function). In order to rectify the entry value, rectifying accounts (according to the economic content) are used which are liability accounts (according to the accounting function). Detailed information on fixed assets is provided in the notes to the balance sheet.

From the analysis carried out at the mining exploits it is found that, the largest share in the total of fixed assets is land, followed by constructions.

REFERENCES:

- [1]. **Bătrâncea, I., Dumbravă, P.** (2007) *Controlul și auditul financiar al entității economice*, Ed. Risoprint, Cluj Napoca,
- [2]. **Dănescu, T.** (2007) *Proceduri și tehnici de audit financiar*, Ed. Irecson, Bucuresti
- [3]. **Ghiță, M.** (2009) *Audit intern*, Editia a II a, Editura Economică, București
- [4]. **Popa, I., Man, A.** (2009) *Auditul financiar de la teorie la practica*, Ed. Risoprint, Cluj Napoca
- [5]. **Răvaș, B.** (2016) *Control, audit și guvernanta*, Editura Universitas, Petroșani
- [6]. **Răvaș, B.** (2016) *Standardizarea misiunii de audit*, Editura Universitas, Petroșani
- [7]. **Răvaș, B.** (2018) *General aspects on how to approach the internal audit mission*, Annals of the University of Petroșani, Economics
- [8]. Hotărârea Guvernului nr. 1086/2013 pentru aprobarea Normelor generale privind exercitarea auditului public intern
- [9]. Legea nr. 672/2002, privind auditul public intern republicată
- [10]. Legea nr. 85 intitulată Legea Minelor, 2003, publicată Monitorul Oficial Nr. 722