

**BABEȘ-BOLYAI UNIVERSITY
FACULTY OF ECONOMICAL SCIENCES AND
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ACCOUNTING AND AUDIT DEPARTMENT

**DOCTORAL THESIS
-SUMMARY-**

**IMPLEMENTATION OF INTERNAL AUDIT
SYSTEM FOR TRADING COMPANIES**

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Key-words: audit and value added concepts, audit evolution and the organization of characterising activities, audit departments' valuation, audit necessity and objectives, internal audit externalization, generally defining control, and especially internal control, the objectives of control, audit role in corporate governance, risk concept, fraud risk, risk identification and valuation methods;

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2. Research motivation and importance

The motivation for choosing this research theme has double connotations, the first one referring to the fact that internal audit function has gained both appreciation and recognition over time, determining a necessity to have a higher number of specialists in internal audit field, and secondly there is the complexity of the environment, characterized by an ascending trend, that surround the top managers who are in charge with managing companies, so that all the aspects deriving from the practice becomes predictive, generating the increase in importance of the internal audit service, that should, in time, and step by step, be adopted and integrated in every entity. The main argument for the previous statement relies in the development of internal audit function in both small and medium-sized enterprises.

Nowadays, it seems that internal audit services are considered to be set at the highest point at an entity level, being directly subordinated to the general manager, and at the same time becoming more and more recommended to be used, as its functions go far beyond a simple compliance control that is reported to an established referential system, as an audit of efficacy that adds value to internal audit work.

Because of its complexity, we can consider internal audit as an important research area, and the theme of “Implementing internal audit system in trading companies” is a current one, its evolution requesting for research and documentary work, data and knowledge gathering for developing it further on.

Internal audit definitions vary from the ones that rely more on internal audit role in internal controls valuation (Pickett S.H.K.&Vinten G.,1997), to those that contain most of internal audit functions and roles (Sawyer, L.B.,2003). By the end of 20th century, internal auditors were already ensuring advice and recommendations for general management, taking part in risk management processes and supplying recommendations for its improvements (Staciokas R.&Rupsys R.,2005). An international literature review from internal audit field would identify certain scientific papers of specialists such as Stacey N.A.H.(1954), Littleton A.(1981) and Brown R.(1968) who conducted research on audit.

One important research in audit has been developed by Matthews D.(2006) in his paper „A history of auditing; the changing audit process in Britain from the nineteenth century to the present day.” This article is dedicated to audit history, in general, and Great Britain audit history, in particular, the author using the interview technique by interviewing pensioned accounting experts, as well as active ones, but with great professional experience. Another technique utilized by Matthews is the one of the questionnaire, following the main elements that have had a remarkable influence on audit evolution process. Another source for developing such a complex project has been studying companies’ reports, by selecting a representative sample from the firms that are quoted at the stock exchange. The conclusions for this study reveal internal audit practices diversity in Great Britain, the diversity level being established by the large variety of client’ types to whom auditors were addressing to, the increasing influence of computers on audit work, as well as the ascending trend in companies’ size.

Nowadays, internal audit field is known to have a striking development, and the interests for the efficiency criteria of this activity concentrate mainly on qualitative aspects of financial-economic environment that is specific for juridical entities and/or public institutions. The bankruptcy of large corporations (2001- Enron, 2003 - Parmalat) and multiple financial scandals (such as, for example WorldCom, Adelphia, Qwent Communications, Global Crossing) have strongly affected corporate environment. A rapid response to these negative aspects of national economies from different countries came from investors that were beginning to show mistrust in companies’ success and in their own investments. In order to protect investors and to establish a strict internal control system, audit, in general, and internal audit, in particular, is considered to have a special role and necessity.

The dynamics of changes that influenced entities has also determined a change in internal audit’s role from an appreciation, monitoring and valuation function, to one that confers assurance, consultancy and assistance for management (Davies,M.,2001). Internal audit practitioners are consulted by firms’s managers in order to formulate the most pertinent decisions (Sawyer L.B., 1991).

Any research activity, either oriented to establishing a new theory, or having as a purpose the examination of reflecting in practice theoretical aspects, can be classified in two

categories: inductive research, from practice to theory, and deductive, from theory to practice. From theoretical point of view, the two research methods coexist, the practical approach also suggesting an inter-relation between them. However, it is hard to establish the exclusivity of one or another when starting to apply it because of the interdependence that generally exists between the theoretical character and empirical one. There are no theories that are not based on a minimum set of practical data, as well as not a single empirical study can develop without minimum theoretical background.

In these conditions, facing an economic activity that changes constantly, besides deductive research there has to be taken into consideration the inductive one that complies with the modifications incurred.

Thesis objectives

The objectives of the research theme that are exposed in this paper develop the following aspects:

- establishing the context in which internal audit emerged and developed, measuring the actual stage in research through an approach from past to present, from international to national.
- presenting principles and rules that govern accounting system organization of an entity, concentrating on internal audit.
- internal audit function evolution in the Romanian national context, for setting the specific traits of internal audit in trading companies, in order to obtain a general image of internal audit.
- conceptual approach framework regarding internal audit's added value, underlining the supreme role of internal audit of adding value to the entity, resulting in the intention of identifying the main methods of achieved performance measurement as to demonstrate that internal audit complies with its responsibilities of adding value to the company.
- showing the actual stage of internal audit at national and international level, establishing practices in internal audit field, explaining the contribution of audit externalization to quality increase regarding the activities developed, describing the trend to perfectionism of internal audit in Romanian trading companies.
- approaching the object of internal audit, by conducting the research directions to those control models that are adapted to trading companies.

- Underlining the role of internal auditor through an improvement in patrimony administration, valuation of internal control reliability and entity's functions in relation to it, and to transfer correct information regarding these aspects, management risks appreciation and/or the ones coming from not complying with entity's objectives.
- the analysis of internal audit in relation to other forms of financial control, using as a research methodology, the qualitative method that is based on these concepts' analysis through a comparative evidence of similarities and differences as well as complementary relations in order to underline the specificity of internal audit activity and conferring a special attention to private sector entities.
- identification of main processes from the entity approached by internal audit for improving risk management efficiency, control and governance.
- estimating the sample risk in an audit mission, presentation of the study concerning the sampling risk in internal audit.
- setting responsibilities for internal auditors in matters of fraud as well as consultancy and advising activities.
- describing the internal audit system implementation within a trading company from a practical approach, defining general procedures on internal audit development in a company.
- presenting the practical application regarding the methodology of internal audit implementation in a trading company with respect to the valuation of stocktaking activity within the firm.
- Developing an empirical research concerning the motivation for implementing an internal audit system, as well as measuring the contentment degree concerning the current internal audit system within trading companies, for finding the main issue that characterise the internal audit of Romanian trading companies.

The above mentioned objectives demonstrate that this paper consist in an interdisciplinary research concentrating on a fundamental element of great importance, its content being based on both deductive and inductive approaches as to investigate whether they are verified from practical point of view.

3. Scientific research methodology

As to achieve the formulated objectives regarding the studied theme, this paper assumes some scientific research methods. The main purpose of the methodology is to help us understand the knowledge products and processes. In order to achieve its function, the methodology includes the adequate definition of the approached area, principles and rules of investigations, establishment of working tool for data gathering and interpretation, as well as strategies of theoretical build and rebuild.

In most of the cases, we used the comparative method, in order to present the specific features of internal audit within trading companies that are different from the ones in public entities. The research methodology combines qualitative research (chapters 1-4) with quantitative research (chapters 5-6), mentioning that the efficiency of obtained results would have been higher if there would have been an optimal mix between those, as to attain established objectives. Another research method is the one of documents' analysis (chapters 1,2,3) by studying references, making comparative studies, analysing reports issued by professional organisms, the interpretations of specialists from literature, as well as materials that were published in international databases, for determining the analysis of the evolution for our chosen theme from past to future, from international to national.

The first chapter contains a synthesis of the actual stage of knowledge, identifying the conceptual and normative framework, at national and international level, at which the modern audit work develops. Furthermore, the scientific research reflects a fundamental research of audit theory and normalization, through a normative type research technique. This assumes a historical analysis of internal audit concept as well as an identification of norms and organisms that significantly influenced audit activity in time. As the main research type we choose the procedure of literature review, that concentrates on finding relevant literature and precise identification of the actual stage of knowledge, of existent necessities as well as future research tendencies. Revising specialised literature allowed for creating some clear directions concerning the concept of internal audit.

By presenting the processes that create value for an entity and supply information necessary in the decision-making process in a precise manner, we reflect the role of accounting in general, and of managerial accounting in particular. This brings an important contribution to the dynamic administration of entities, by trying to find answers for fundamental problems in economic environment and in practice.

The interactions between different elements included in the research and issue of obtaining information regarding our theme are reflected through presentation of stuffy cases. (chapters 1,2,3,4).

In the third and fourth chapter, the research is extended from audit concept delimitation and description, audit typology, to searching for explanations regarding the evolution of concepts and other elements: internal control system valuation, risk estimation and administration, sampling, developing a study of sampling in internal audit. The research efforts have been pursued beyond documentation limits of accounting literature and internal audit international standards' analysis, reaching the proper mean of interpreting and understanding of risk concept in audit practice.

Any risk analysis has to start with its identification. This is necessary for ensuring that there is enough information regarding risk and the area in which it develops. Afterwards, the next step can be attained, and the documentation can take place in order for the implications of the procedures to be established. Risk description assumes giving written details, in order to be forwarded for valuation and to estimate all the people in charge with risk analysis.

The empirical research examines and sampling procedures and the ones for audit risk valuation, by considering the sampling risk perspective, internal control testing and selective testing ones, in order to obtain audit evidence. Technical aspects of internal control testing and selective testing have been presented, together with the solutions for improving their performance. The factors that determine internal control risk and the inherent one were also investigated, for certain fields, examining the stages of internal control applied testing, and finally resulted the valuation techniques concerning internal

control environment, as well as techniques that are to evaluate and test the risk. Because there is no unique formula for computing the sample volume, this paper examined the influence of the main factors. Thus, it was noticed that the volume for testing works regarding internal control is to be diminished in favour of the ones that regard the advanced risk conditions of internal control as well as inherent control. Further on, for the populations with these types of risks, it is recommended to enlarge the sample volume, so that the results are not based on internal control procedures credibility.

Checking the existent selected formulas, it was discovered that their application neglects the sampling risk, which contributes to avoiding the selection of the elements with eventually significant misstatements. In this paper are examined those situations that refer to the modality of determining the sampling volume and of selection techniques for the elements of the general population when elaborating the sample. Also, this thesis approaches some problematical aspects regarding examining and valuation for obtained results when testing the sample elements.

One of the purposes of this paper is to present and analyse in a detailed manner the developed methodology of internal audit (chapter 5). In order to achieve this objective, we concentrate on the modality in which internal audit is implemented, and then followed the part that presents the methods and instruments used while an internal audit mission by presenting a practical application concerning the valuation of a stocktaking activity, this taking place in the same entity in which internal audit system has been implemented.

Another research direction on which this these concentrates on relies on the questioner technique. This has as a main objective the demonstration of a necessity for the interest regarding the implementation of an internal audit system to be quantified. For data gathering, the main method that has been chosen consists from the observing method, being considered to be the most often used method in research activities, as well as the collecting methods that use the questionnaire. Through scientific observation, we understand a detailed and systematic observation of some facts with the purpose of discovering essential aspects or the differential ones, by considering the opinions of the interviewed trading companies at county level, as well as measuring the contentment

degree of trading companies that have already an internal audit system implemented.

A very important source of information and ideas analysed and discussed in this paper is represented by The Institute of Internal Auditors. This institute confers training courses, materials that have an informing role and professional certificates. Some of these materials were considered during paper elaboration, within the research development and when considering the issue of internal audit. The aspects mentioned in the ethical code of professionals from internal audit field is considered to be quite essential, as in audit and control work ethics represents a fundamental element, next to professionalism and experience.

The research is based on the following elements:

- references study;
- specific normative acts;
- scientific articles and books;
- analysis and studies in the reference field, profile reports developed by professional organisms that have an international recognition (PWC, IIA, AICPA, ICAEW, PROTIVI) ;
- reports and press announcements of organisms from audit field;
- developing synthetic schemes and charts in order to present in the best manner possible the results of the research;
- practical application in chapter 5;
- as a research technique we used the questionnaire, applied for a sample, and being transmitted electronically through emailing, then data have been processed and analysed obtaining the necessary information for being able to respond to the objective established beforehand at the beginning of the research.

4. The synthesis of chapters included in the doctoral thesis

Chapter 1 “Conceptual approach of internal audit and value added”: In the first chapter we applied a general research of audit typology starting from general aspects and finishing with particular or specific one, when presenting the internal audit objectives, principles, internal audit function evolution in the Romanian national context. For emphasizing the specific features of internal audit of trading companies, we developed a comparative analysis between the trading companies’ internal audit and the one present in public entities.

From the comparative analysis of the two sectors, private and public, we can notice some specific features of internal audit of trading companies regarding the modalities in which internal audit is organized. Internal audit represents a management function that has to be developed by specialists. In case there are deficiencies, they can make recommendations for improvement (Gray Iain, Manson Stuart, 2008). According to some specialists (Renard J., 2002), internal audit has had a more accelerated development since the 80’s when “internal audit function originality and particularities are beginning to get a shape”.

The supreme role of internal audit consists in adding value for the entity. That is why we have established to describe the main methods of measuring achieved performances in order to be able to demonstrate that the audit performs its job properly, as a value adding element. The value that internal audit function is adding to the company assumes concrete modalities and criteria of measuring it. The existence of performance indicators allows the examination of internal auditors’ work and represents an important factor for the firm’s success. A general accepted definition regarding added value does not exist, as there are significant differences concerning added value from one entity to another. (Roth.J.,2002) states that some of the internal auditors practitioners consider that value added is present only if the internal environment helps management to improve their business in contrast to the conformity audit, that only examines the compliance with some politics and procedures, although there are specialists that contradict this opinion. The quality of audit activity is influenced by the following variables: the activity

sector in which the internal audit is applied, the entity to which audit and audit activity belongs to.

Chapter II “Internal audit situation in Romania and internal audit perspectives for further years”: Audit necessity in Romanian social-economic life was a fact, but the modality of implementation for audit has been realised in such a fast way that first it was adopted the audit term and then the process itself. Initially, audit came from multinational companies practice, then being transferred to the national firms, and afterwards assimilated by the administration . (Jaques Renard,2002) In Romania internal audit is imposed by public institutions and assimilated structures being recommended to entities from private sector. (M.Ghiță,2004). The main objective of audit is represented by quality, but the quality of all entity’s sectors, not only the one of financial-accounting department. This fact is necessary, as private companies, in contrast to the public ones, act on a market governed by the equitable competition, not stae’s monopoly. Internal audit history within an entity represents another factor that generates differences between audit practices, as at national level the path of internal audit has been the reverse of the one from international level, at the beginning internal audit being control oriented, an element of management advice, while today is concentrated on internal audit contribution to the increase of value adding and to internal audit responsibility in risk management. In this chapter, our purpose was to succeed in conferring a general image regarding internal audit by approaching it from past to present, from international to national. Our research had as a starting point reference papers from scientific literature, and an important contributor to the evolution of internal audit on international level was Sawyer L.B., , awarded in 1973 by The Institute of internal Auditors, with the distinction of „Bradford Cadmus Memorial Award.” Given to those with a remarkable contribution in internal audit field, this author being denominated as the father of internal audit through his paper „Internal auditing: practice and professionalism” (Sawyer L.B., 1991).

In order to underline the main elements that characterize internal audit, we started from international to national, developing a study through comparison method concerning the means of audit organization at global level, choosing some countries with a remarkable activity in internal audit practice in which internal audit profession have a considerable experience. We performed a study concerning international audit practice, our study comprising information regarding internal audit practices used by multinational companies

with a well developed practice in internal audit field, that can be a development model of internal audit practices in an entity.

By reviewing the scientific literature on internal audit externalization issue, we build a projection on main advantages and disadvantages of externalizing internal audit. Nowadays, it seems there are partial externalization tendencies (co-sourcing), and even total (outsourcing), but we recommend using external consultants for punctual needs, in which internal personnel experience is not relevant (co-sourcing), the transfer of knowledge to the team of internal auditors being one of the reasons for this approach. Colbert J.L.(1995), Davidson A.R. (1976), Davies M. (2001), Hindson A. (2006), Johnson J.L. (2006), Leech T.J. (2000), Lemon M.W. (2003), Lindow P.E. (2002), Meneses – Gaya C (2010), Ming C. (2011), Neumann F.L. (1992), O'Donnel E. (2000), Pereş I. and Bunget O. (2000), Pott Ch. (2011), Seigel P.H. (1995), Vinten G. (1990) are only certain specialists that present for and against arguments regarding the necessity of externalizing internal audit.

Chapter III “Conceptual approaches concerning internal control, parallel between internal audit and other concepts” Following the logical path of the research, we noticed the importance of considering the objective of internal audit-internal control, as a result of conceptual approach research regarding internal audit, internal control models, by paying attention to aspects of consultancy and monitoring, and we came to the conclusion that internal control is the main objective of internal audit. The practical audit activity has to admit the determination of reliability for all financial and operational information, controls valuation that have as a purpose assets’ protection, valuation of devices concerning compliance of the results of operations with the established purposes and objectives, in order to help management in complying with the objectives established for the entity. In this chapter, we analysed internal audit in relation to other concepts, using as a research methodology the qualitative method, based on comparative analysis of resemblances and differences as well as complementary relations for underlying internal audit specificity.

Chapter IV “Responsibilities of internal audit in risk management” In chapter four, the research activity has been concentrating on risk concept definition, the efforts for conducting the resrach being enlarged over documentation limits in scientific literature and internal audit international

standards, to the concrete modality in which risk concept is interpreted, understood and implemented in audit practice.

As a definition, the word risk has the significance of the possibility that an event which influences the achievement of the company's objectives to take place, being measured by two parameters, the probability of appearance and the produced impact. The Institute of Internal Auditors (IAI) defines risk as being "the possibility that an event capable of influencing the achievement of objectives to take place". Risk represents "the threatening that an event or an action could affect in a negative way the capacity of an organization to attain its established objectives." (Emilia Vasile,2005) In a scientific paper from French literature is mentioned that "risk represents an ensemble of circumstances that can have negative consequences upon an entity and whose internal control and audit have as a mission the assurance of a proper control on these elements, as much as possible". (D.McNamee, G.Selim,2000) Any risk analysis must begin with risk identification. This is necessary for ensuring a knowledge of the risk, of the area in which it manifests.

Internal audit becomes more and more important in the activity of fraud detecting and thus we considered introducing in this chapter a valuation of internal audit contribution to fraud detecting and preventing. E.Hogan, Zabihollah Rezaee, Richard A. Riley (2008), describe the factors of risk appearance as "red flags" and think that one of the major challenges in fraud identification is of observing the frequency of these "red flags" and the degree in which they affect risk, as their simple presence does not necessary indicate fraud existence, at least in the first stages of fraud. Fullerton R. (2004), Hogan Chris E. (2008), Lambert J.C. (1989), Wells J. (1992), Willekens M. (2005) have formulated own characteristics that describe fraud risk.

Investigating internal audit responsibility in approaching risk management processes we considered useful to underline its importance by developing a study concerning sampling risk. The arguments that sustain the choice of this research theme consist in justification through internal audit risk factors appreciation, sampling risk being one of audit risks.

From structural point of view, this empirical paper has been developed according to certain stages, namely:

- Research plan establishment;

- Determination of methods for choosing the samples and evaluating the sample results;

It results that in audit activity in most of the cases is necessary the usage of sampling, that represents the appliance of some audit procedures on one part from the whole population under audit, for obtaining relevant audit evidence, that should characterize the entire population. The opportunity of the presented subject comes from this necessity of any auditor to master the methods and selection procedures and to establish sampling dimension that are to be examined under various aspects. In practice, almost there is no audit mission in which sampling is not applied.

Chapter V “Methodology of performing internal audit missions” Our intention within this chapter is to describe the main procedures and techniques which the auditor uses in its activity starting from the premise that the procedures and techniques used are the same, the differences being determined by the used technology. Once established the theoretical references of internal audit for trading companies, the next direction of research consist in considering the process of implementing the internal audit system in a trading company in a practical way. The implementation strategy included the development of entity’s audit book, the elaboration of general procedure for performing internal audit, description of working procedures, as well as assistance supplied for realising for implementing the first activity of internal audit in an entity that is the audit for stocktaking activity and valuing its result. Then follows the part which presents the methods and instruments used in the development of an internal audit mission with a practical application concerning the evaluation of a stocktaking activity and results valuation, this application being performed for the entity in which internal audit system has been implemented. In order to aatin our objectives, we will identify, with the help of the audited structure responsible persons, the laws and regulations that apply to audited activities, we obtain the organizational chart, functional regulations, job descriptions, written procedures of audited department, we identify the responsible personnel, the circuit of documents, we add all statistical data regarding performance of audited activities a to support them in risk analysis, and the internal audit mission ends through the development of internal audit report and further supervision and assistance of applying the recommendations.

Chapter VI “Empirical research on internal audit system within trading companies”: In this chapter we comprised an empirical research based on questionnaires in which we have analysed the following:

1. Why would Romanian companies implement an internal audit system?
2. Which is the contentment degree of Romanian firms concerning the current internal audit system?

We consider that finding the answer to these questions represent a real challenge because of the novelty of the investigated issue.

In selecting the sample we concentrated on the specific of our research theme, and as a consequence we have chosen a target group composed by all trading companies registered in Cluj County, from where we randomly extracted the sample, then we applied the questionnaire and in this way we obtained or gathered the needed data. The respondents are employees from trading companies and work in one of the following departments: audit, financial-accounting, quality management, or even administrators where there are few employees. We mention that when establishing the sample we kept in mind that the selected companies should have a geographical distribution that is to be representative for Cluj County, covering the main fields of activities or industries. The size of the sample corresponds to 310 trading companies. The questionnaire contains a set of 11 questions build so as to obtain a current image of relevant information about the internal audit activity. In order to ensure ourselves that the addressed questions are clearly formulated and understood correctly by the respondents, the questionnaire has been tested on a sample of 9 persons, and only after collecting the observations made it has been applied on the entire sample. As a result of the questionnaire appliance, there were 56 answers, the answering rate being of 18.06%, that is considered acceptable by the scientific literature.

5. *The synthesis of scientific conclusions*

In the last part of the thesis, we have synthesised the results of the research and formulated general conclusions that can be structured on two dimensions:

- Conclusions on the basis of theoretical background;
- Conclusions of empirical research.

In the next paragraphs we aim to present a precise image of our obtained results by synthesizing them on the two previously mentioned components.

The main objective of the first chapter consisted from *presenting the conceptual approaches regarding audit in general, and internal audit in particular*. In order to achieve this aim, we established the following secondary objectives:

- describing the context in which internal audit originated and developed;
- defining the audit concept and presenting the specific typologies;
- enumerating and explaining internal audit objectives;
- presenting the evolution of internal audit at national level;
- mentioning the specific principles of internal audit;
- establishing the conceptual approaches of value added for internal audit, valuation methods, measurement and increase of added value .

On the whole, we can state that besides the diversity that characterises the conceptual approach of added value, if the internal audit function is willing to extend its contribution, then there should be found a modality of measuring added value and demonstrating to the management level that it can create real value from all the performed activities. **The author's contribution** within this chapter consists of synthesizing key elements from internal audit evolution, having as a guide the conceptual criteria in national and international context, on a time axis.

The main objective of the 2nd chapter represents *the presentation of internal audit situation in Romania and of future perspectives regarding this activity*. For achieving this goal, we state certain secondary objectives, namely:

- establishing the actual stage of internal audit at national and international level;
- presenting internal audit practices;
- elaborating perspectives of internal organization of audit in private sector;

- explaining the contribution of audit externalization in wuality increasing regarding performed activities;
- establishing directions of perfectionism for internal audit within Romanian trading companies.

*Presenting the current comparative stage of internal audit at national and international level (theory versus practice), we underlined the perspectives of organizing internal audit within private sector. Using for and against arguments concerning externalization of internal audit activities we achieved to elaborate certain directions for perfectionism, as to improve performances and increase the quality of performed activity. **The author's contribution** in this chapter relies in presenting perspectives for internal organization of audit in private sector.*

The main objective for 3rd chapter represents ***the establishment of conceptual approaches regarding internal control***. This can be achieved by considering the following objectives:

- presenting the concept, models and activities for internal control;
- establishing delimitations and interfaces for internal control;
- explaining the comparative study regarding financial control forms.

The concept, models and specific activities of internal control permitted establishing delimitations and interfaces for the internal control of internal audit. We made comparability analyses between internal audit concepts and other concepts: internal and external audit, internal audit and assurance of quality work, internal audit and external consultancy, internal audit and administration control, using as research methodology the qualitative method, based on the analysis of these concepts through a comparative evidence of resemblances and differences and complementary relations for presenting the specificity of internal audit. **The author's contribution** consists of showing the relations between internal audit and presented elements, by underlying the necessity of externalization of these activities so important for any juridical entity.

The main objective of the 4th chapter represents ***mentioning and explaining internal audit responsibilities in risk management***. For achieving this goal, we state certain secondary objectives, namely:

- presenting conceptual approaches regarding risk;
- mentioning risk typology;
- valuation of risk management systems;

- underlying risk management and showing the role of internal audit for corporate governance;
- evaluating sampling risk in an audit mission;
- approaching fraud risk by auditor;
- presenting the empirical study on internal auditors' perception concerning audit risk;
- describing the study on sampling risk in internal audit.

According to our opinion, risk based internal audit is defined as the activity that supplies insurance for risk identification and administration by managerial structure. Internal audit responsibility is underlined through internal audit definition. By conducting a research on this responsibility we obtained the following conclusions:

- the audit establishes its own techniques and procedures in an adequate manner only if there is a fundamental knowledge of risks an entity deals with, so information about risks and their effects represents a research area for the author, as by knowing the risks the auditor can allocate the company to a certain risk area.
- The multitude of risk factors is not important, but the knowledge of the risk itself, the way in which it reacts, the factors that conduct and maintain a favourable environment and those that can make it disappear. .
- The importance of risk administration does not result from management responsibility of projecting and implementing an internal control system that should manage in a legal and efficient manner risks associated to entity's activities .
- Internal audit has the role of ensuring the management concerning internal control system functionality and risk management quality.
- Internal audit role for corporate governance is to respond to corporate governance principles and to increase the efficiency in applying entity's objectives.

Internal audit becomes more and more important in fraud detecting, so that we considered making an evaluation of its contribution to fraud detection and prevention. Following the course of our research, we obtained useful conclusions such as: we consider that is proper to use the practice of examination when performing an audit mission, besides the objectives for the audited field, this helping to reduce fraud, concerning:

- The existence of written rules that should describe the prohibited activities and

measures that have to be applied when rules are broken;

- Establishing and maintaining authorization rules for every operation;
- Informational circuits are reliable and allow management to obtain adequate, correct and in time data on developed processes.

We also recommend creation of an antifraud department that can supply an insurance on internal control systems' quality for the ones elaborated and implemented by entity's management for ensuring effective and equivalent protection of interests. The presentation of concrete cases in approaching risks represents a **personal contribution** that completes the study on sampling risk in internal audit.

The main objective of the 5th chapter consisted from ***presenting the methodology performing an audit mission***. In order to achieve this aim, we established the following secondary objectives:

- Presenting the application area of internal audit mission;
- Describing and explaining internal audit missions;
- Implementing internal audit methodology, defining general procedure of internal audit development within a trading company;
- Presenting the practical application regarding stocktaking valuation in a company;

The purpose of this chapter has been to confer an exhaustive model by presenting the practical mean of organizing and functioning of an internal audit, as International Audit Standards mention for Internal Audit professional Practice only general principles that should govern internal audit process without giving the performing modalities.

The explanation for internal audit application field, the presentation of these missions and of specific methodology conferred necessary forward explanations for understading the general procedure of developing this type of audit. In order to understand the personal contribution brought to this chapter is important to define the elementary operation and to present its steps. Therefore, an elementary operation represents an activity of the audit field, whose traits can be theoretically defined and compared to the practical reality. The stages of identifying the elementary operations are presented below:

- Detailing each activity in successive operations describing the process from performing the activity to its recording (audit circuit);

- Defining for each operation the conditions that have to be fulfilled from specific controls point of view and respective risks (that have to be avoided);
- Determining modalities of functioning so that the company attains its objective and eliminates the risk.

Presenting the practical application regarding stocktaking activity and of the procedure in which internal audit is developed in a trading company reflects the **personal contribution** from this chapter.

The main objective for 6th chapter represents *the presentation and explanation for empirical research regarding current audit systems within trading companies*. This can be achieved by considering the following objectives:

- The theoretical approach of empirical research regarding the current audit system of a trading company;
- Arguments for the developed study;
- Presentation and interpretation of obtained data;
- Explaining the final part of the study.

For creating a framework of the obtained results, we consider that the study confers the possibility of analysing the general tendency registered at the sampling level, demonstrating an increasing trend in the interest of trading companies regarding the implementation of internal audit systems as well as the necessity of assuming some costs, with advantages that are obvious. As a general conclusion, we noticed that the contentment degree regarding internal audit system is found at an acceptable level, although there are still issue that can be improved for eliminating difficulties and confusions that affect internal audit activity. The present empirical research developed through the questionnaire technique and results interpretation represents the main personal contribution to the content of this chapter.

6. Research limitations and perspectives

The present paper can be included in the indicated research area, respecting the initially established objectives. However, is very difficult to elaborate a model of implementing an internal audit system within a trading company and to apply internal audit methodology in practice. In fact, the research field is larger and impossible to cover through a general model which is to applied in practice by trading companies, the presented model containing only reference elements, so that there are still certain open questions that can be discussed and improved in future research.

Research limitations can be identified either by referring to the presented subject, either by considering the sphere of scientific literature, that imposed creating a methodological delimitation concerning the preparation of this study. On the other hand, the implementation has been performed within a single trading company.

Regarding the *limits for our analysis*, by elaborating an empirical research concerning the motivation for implementing an internal audit system and measuring the degree of contentment of the current identified system, we state the following aspects:

- a) Including in questionnaire development only those questions that are considered to be closed and semi-closed. Maybe if we had also used open type of questions we could have generated a greater precision, despite the difficulties appearing in the analysis and questions processing;
- b) We conducted our attention to those relevant aspects from the research theme because we did not want to waste too much of the respondents' time, so that they would not be discouraged in filling in the questionnaire;
- c) We consider that by enlarging this research at a higher number of respondents, we could have obtained a lower error degree, with direct influences on research results;
- d) The study could have been more relevant if it were to be extended at regional or national level.

We notice that these limitations do not have a significant effect on the development of

empirical study as it does not influence the relevance of the obtained conclusions from results analysis, although the sample used a relatively restrained area, being questioned only 310 trading companies from Cluj County, that is on the 2nd place at country level, after Bucharest, from the point of view of its number of firms registered at Commerce Registry.

This scientific research of internal audit elaborated through this thesis shows some formal and organizational limitations such as:

- the determination of the respective stages for specific procedures of internal audit is highly influenced by the peculiarities of every juridical entity;
- extending the study on internal audit relations.

Organizational limits of the approached issue are synthesised as follows:

- developing a questionnaire that is addressed to auditors, to the management of juridical entities and control organisms (County's Financial Administration, Chamber of Accounts) under the authority of prestigious institutions, referring to the need and role of measures that have been applied and of responsibilities that followed the performed audit works, that allows for a successful collaboration between the academic environment and the one of internal and international affairs;
- fining the real motivation of respondents concerning the questionnaire ;
- elaborating the research stage for a larger period of time enlarging it to other scientific papers and ones written in other languages (not only in English and French) .

Research perspectives

We notice that all the above presented limitations can become research perspectives, taking into account that through the limits presented earlier we also identified some perspectives that can develop future directions for further research, namely:

- establishing the correlation that exists between internal audit problems in Romania and the degree of complying to the national regulation and to those from internal audit standards;
- identifying the theme areas in complying with the mentioned regulatory aspects;
- developing a research referring to the main organisms that regulate internal audit and solved problems or the unsolved ones of practitioners from the field ;
- extending the research stage on complementary themes of internal audit.

We highly recommend the improvement of internal audit system implementation model developed within this study for a trading company, that could be further applied by other

trading companies, as the conclusions of such types of research and their potential effects would confer direct benefits to local, regional and national economic environments. *Another advice would be to continue the open research* from chapter 6 on trading companies perception regarding current internal audit system, being many aspects that can be analysed, as well as trying to identify new modalities of improving the methodology for internal audit, as this study pleads for investing resources in the research and implementation of specialised software for collecting and processing information necessary for the process of documenting audit work.

No matter the complexity degree a research paper may have, it cannot elucidate all the aspects referring to the issues brought into discussion. However, we notice that new questions and new answers would improve the quality of this research. That is why we decided that in future research we should include the identification of difficulties that might appear in the work of a Romanian internal auditor, by developing more complex and extended studies concerning internal audit performing within trading companies, thus by elaborating questionnaires relating to the current internal audit system and their perspectives on short and long term, under the supervision of professional associations, considering that all these could have a greater impact than the one attained through the present paper.

7. Referințe bibliografice

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