

DO WE NEED INTERNAL AUDIT, FINANCIAL AUDIT OR COACHING?

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Abstract

The present paper does not wish to be merely a brief parallel between the financial audit and the internal audit, but it aims at pointing out their importance for any economic entity, especially the importance of the benefits it can offer both to the current management and to coaching. Starting from the premise that audit is not a control and that auditors are not the adversaries of an entity, the aim is to show that the scope of audit missions should concretize in added value.

Keywords: *internal audit, financial audit, coaching, fiscal audit*

The research methodology to which I appealed in creating the present paper consisted of the analysis and systematization of the specialized literature and that of the national and international norms which regulate the auditing activity.

In view of accomplishing the aforementioned objective, I used as main method of research, the following: *qualitative analysis*, within which *the method of comparison* can be found, a method which views the drawing of a parallel between the forms of audit; *synthesis*: found in drawing the conclusions which regard the explanation and the appreciation of the acknowledged situation, the limits and the characteristics of audit, respectively, and, last but not least, *the documentation*, as a theoretical method of research within which I comprised the analysis of the norms issued on a national and international level, regarding the auditing activity, as well as the

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analysis of the works published in the field by various internationally renowned authors.

Internal audit

The audit, in general, is a systematic process of objective acquirement and evaluation of some pieces of information or affirmations regarding the assessment of their degree of conformity with the pre-established criteria, as well as a process of communication of results to the interested users (American Accounting Asociatim).

The audit consists of verifying and certifying of the financial situations by and independent expert in view of expressing an opinion regarding the reality and exactness of the data contained therein. The role of the audit is to ensure the users of information in what regards respecting the accounting principles and practices, as well as informing them about the presentation in accounting and in financial statements of a clear, complete and real image of the financial position and performances of the company. (Giurgiu A, Ungureanu P., Duma F., 2009, p. 28.).

From the analysis of the definitions given to the audit, in general we can assume the following traits:

1. The audit is a process, a set of operations, of collecting, analysis and evaluation of the information (audit evidence) in view of acquiring an assurance regarding the conformity or non-conformity of these pieces of information or of the declarations with pre-established criteria.

In essence, an auditing process consists of: collecting the just and plenty of audit evidence necessary for expressing an opinion or for formulating a recommendation; the evaluation of the accordance or disagreement between the different types of collected evidence; establishing the obliquity from the pre-established norms. (Petrascu D, 2012, p.8).

2. The audit confronts the applied accounting policies and the utilized work procedures within the entity with a set of pre-established criteria, such as The International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS), the national accounting regulations, the manuals of internal procedures, fiscal regulations, etc. In order for them to be useful, these confrontations must be based on verifiable and justifiable information.

3. The auditors are competent professionals who have obtained this quality based on certain exams. The examination of the information is not done randomly, according to the auditors' intuition, but by professional

standards (ethical conduct established through Codes of Profession and through the VII-th Directive of the CCE from 1984, professional standards and work standards).

The conclusions of the auditors are synthesized and systematized in the reports which are made available to those who are interested. (Oprean I., Popa I., Lenghe R.I., 2007, pp 97-98.). In the year 1999, The International Institute of Internal Auditors (IIA) from USA issued a new definition of internal audit, following a study conducted with the help of 800 students, coordinated by the auditors from the Australian universities, like this: (Ghiță M., Popescu M., 2006, p.35) the internal audit examines the entity's activities and services, first of all, in order to improve them. He leads to the strict application of the policies and procedures instituted by the respective entity and is not limited to the financial aspects.(Jinga C., 2009, p. 54).

The internal audit constitutes a function of the control structure of the entity. It must not be confused with the entity's internal control structure. The two departments are distinct and independent, and are not in a relation of subordination (Jinga C., 2009, p. 54). The internal auditors are permanent employees of the company and are subordinated directly to the company's management or to the General Assembly of Shareholders. The possibility of calling upon the services offered in this field by specialized companies (expert accountants, financial auditors) through the conclusion of service contracts is not excluded.

The internal auditor counsels, assists, recommends, but does not decide, his obligation being that of representing a means which contributes to the improvement of the control each manager has upon his activities, as well as upon of those who are in coordinating positions, in view of reaching the objectives. (Ghiță M., et. al, Idem., p. 32). To summarize: **the internal audit** is a profession which has always been constantly re-defined over the years, from the wish of answering to the ever-changing necessities of the entities, his object of activity shifting from the analysis of the accounting and financial problems to tracking down the main risks of the entities and the evaluation of their internal control. (Jucan N.C., Sibiu, 2011, p. 71).

The financial audit: the simple denomination of "financial audit" can be used to designate various other missions, such as:

- The financial auditing of the computerized procedures of book keeping;

- The financial audit of the exchange operations in order to verify their presentation according to regulations within the financial statements;
- The financial audit of the accounted social spending in order to verify that the social law is respected.
- The financial audit of the fiscal statements

In other words, *any kind of analysis, any kind of control, any kind of verification and any kind of study regarding a section or a part of the accounting or the financial statements of an entity may qualify as 'financial audit'*.

This means that the financial audit may be considered as an audit, in general terms, with the exception that the competent and independent specialist must be a professional accountant, and the object of the examination consists of any kind of financial-accounting information.

The financial audit (Government Emergency Ordinance- GEO 75/1999 republished regarding the activity of auditing) consists of collecting evidence regarding the financial statements of a patrimonial entity and the use of the evidence in expressing, by the auditor, of an opinion regarding the conformity of their elaboration, presentation and publication according to an accepted financial reporting system. The objective (ISA 120 "The General Framework for the Preparation And Presentation Of Financial Statements Elaborated By The Committee for the International Accounting Standards", appendix to the Order no.94/29 January 2001 of Ministry of Public Finances-MPF, published in the Official Monitor no.85/20, February 2001"); the financial audit consists of "expressing, by an auditor, of an opinion, according to which the financial statements have been prepared under all significant aspects, in conformity with a general framework identified by financial reporting". The expressions used for expressing the auditor's opinion are: "it gives a true and fair view" or "it presents in a true and fair way under all significant aspects", terms which are "equivalents"

Within the minimal auditing norms elaborated by the Chamber of Financial Auditors of Romania (CFAR) financial statements mean: *balance sheet, profit and loss account, statement of changes in equity, cash-flow statements, and the notes to the accounts.*

Defining the financial audit

The financial audit comprises the annual financial statements, which are exposed to the examination executed by a COMPETENT and

INDEPENDENT professional, having the purpose of expressing a justified opinion regarding:

- The correctness of applying the internal financial-accounting procedures, implemented by the management of the entity;
- The true and fair, clear and complete view of the patrimony, the financial statement and of the results obtained by the entity.

The main characteristics of the financial audit refer to:

The realization of the audit by a professional who is independent from the management of the unit;

It responds to the need of information of various users of information;

It examines periodically the documents, on the basis of a contract, usually concluded for a period of one year;

It analyses the financial-accounting operations, as well the internal financial control unfolded within the audited entity in order to express an opinion regarding the reliability of the financial-accounting documents.

It runs an accessory activity in what regards the discovery and caveat of fraud

There are authors who separate the financial-accounting audit from the financial-fiscal audit.

The financial-accounting audit proposes to verify the compliance with the generally accepted conceptual framework of accounting (postulates, principles, norms and rules of assessment), the internal procedures established by the economic agent, as well as realization and certification of the reflection in accounting of the financial statements, of the true and fair, clear and complete view of them throughout the financial year (Stoian A., Țurlea E., *Auditul financiar contabil*, Ed. Economică, București, 2001. p. 13.).

The fiscal audit consists of the expression of an independent opinion regarding the fiscal activities, competencies, rights and obligations and it has as objective the evaluation of fiscal control, of risks in the field of taxes, fiscal policies and fiscal performance. (Boulescu M., Ghiță M., Mareș V., *Controlul fiscal și auditul financiar-fiscal*, Ed. CECCAR, București, 2003, pg. 321-322).

From a judicial standpoint, there is legal audit and contractual audit: (Crețoiu G., Bucur I., *Contabilitate – Fundamentele și noul cadru juridic*, Ed. C.H. Beck, București, 2007, p.320).

Legal audit: represents the auditing mission which has as scope the certification of honesty, regularity and of the true and fair view of annual accounts, as well as the specific verification in what regards the compliance

with certain legal dispositions and other information. The notion of true and fair view is connected with the regularity and honesty of accounting. The regularity means the conformity with the rules and the general accounting procedures, depending on the knowledge those who are responsible of the accounts must have about the reality and the importance of the operations, events and statements within the company.

The contractual audit: it is private and un-institutional and it presupposes the establishment of a contract between client and auditor, to whom the mission of auditing is proposed. This audit can be limited to auditing certain categories of documents issued by the enterprise (the audit of fiscal documents), auditing a single activity of the enterprise (auditing of sales) or to the auditing of one of the services of the enterprise (cash flow audit).

The analysis of these particularities underlines the existence of a single audit mission or legal control, which comprises the known objectives (certification, verifications, specification), but also a very large number of contractual audit missions. This situation is due to the multiple significations attributed to the term 'audit'. Thus, audit can designate any contract concluded between an auditor and a client and it can constitute an activity of control, verification, revision, inspection etc. In these cases, numerous audits may appear in the form of consultation, analysis, evaluation, investigation, diagnostic, etc. (Alain Burlaud, (coord), Francois-Denis Poitral, Edouard Salustra, *Comptabilité et droit comptable. L'intelligence des comptes et leur cadre légal*, Gualino éditeur, Paris, 1998.)

The objectives of financial audit are strongly connected to the information given by the management of the audited entity. In order to be able to draw a conclusion about the correctness and sincerity of the information provided by the management of the entity, the auditor is compelled to gather relevant and sufficient information in order for him to express his opinion regarding the compliance or non-compliance of annual financial statements with the legal regulations in effect.

The role of the financial-accounting audit

The financial audit is realized by competent, independent and authorized professionals. Thus, according to Article 5, paragraph 1 from the Ordinance of the Public Finance Ministry (OPFM) 3055/2009 the companies provided by Article 3, paragraph 1 are audited, *legal persons who at the date of the balance sheet exceed the limits of two from the following 3 criteria, known as 'size criteria' hereinafter: total assets: 3.650.000 EUR, net*

turnover: 7.300.000 EUR; average number of employees during the financial year: 50; prepare annual financial statements which consisting of: balance sheet, profit and loss account, statement of changes in equity, cash flow statement, notes to the annual financial statements.

In this context, I present in the following, an audit report realized at a limited liability company, which, according to Article 5, paragraph 1 from the Ordinance of the Public Finance Ministry (OPFM) 3055/2009 had the obligation to prepare the audit report, as well as the list of auditable objects which were necessary in order to prepare the report.

The presented financial audit report is real, but these elements have been changed in view of keeping the professional secret: the name of the audited company, the number of registration at the Registry of Commerce, the tax identification code and the address, as well as the identification data of the auditor, the identification no. granted by the Chamber of Financial Auditors from Romania, as well as the name of the auditing company (registration no. at the Registry of Commerce, tax identification code and address).

The audit report was prepared at the request of the administrator of M.P. SRL, reason for which a contract has been concluded between the two parties: SC M.P SRL, as beneficiary of the audit report and SC XXX CONT SRL, as audit service provider.

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Report of the independent auditor to the shareholders

S.C. M.P. SRL, headquartered in Sibiu, Calea Dumbravii Street, no. X18, URC (Unique Registration Code) xx84952, Registry of Commerce, J 32/17xx/1994;

Report regarding the non-consolidated financial statements

1. I have audited the annexed non-consolidated financial statements of the company **S.C. M.P. SRL**, which consist of the balance sheet from the 31st December 2013, the profit and loss account, the statement of frozen assets for the fiscal year concluded at this date and a summary of the

significant accounting policies and other notes to financial statements. The non-consolidated financial statements refer to:

• Company capital	9.000.000 RON
• Owners` equity	7.456.775 RON
• Debts	10.429.643 RON
• Debts over a year	4.333.899 RON
• Net current assets	454.376 RON
• Non-current assets	14.922.301 RON
• Current assets	14.543.936 RON
• Turnover	65.643.667 RON
• Operating profit	5.008.330 RON
• Gross profit	4.239.818 RON
• Net Profit	2.746.375 RON

The responsibility of management for the non-consolidated financial statements

2. The management of the Company is responsible for the preparation and true and fair presentation of these non-consolidated financial statements in conformity with the existent reporting framework. This responsibility includes: conception, implementation and maintaining of a relevant internal control of the preparation and true and fair presentation of financial statements which do not contain significant corruption due either to fraud or error; the selection and application of the adequate accounting policies; the elaboration of reasonable accounting estimates for the given circumstances.

The responsibility of the auditor

3. Our responsibility is that, based on the executed audit, to express an opinion regarding the non-consolidated financial statements. We have executed the audit in conformity with the audit standards adopted by The Chamber of Financial Auditors in Romania. These standards require our compliance with the ethical requests, to plan and to execute the audit in view of obtaining a reasonable assurance that the non-consolidated financial situations do not comprise significant deformation.

An audit consists of executing procedures in order to obtain the audit evidence regarding the sums and information presented in the non-

consolidated financial statements. The selected procedures depend on the professional reasoning of the auditor, including the evaluation of the risks of significant deformation of the non-consolidated financial statements, due to fraud or error. In the evaluation of these risks, the auditor takes in consideration the relevant internal control for the preparation and true and fair presentation of the non-consolidated financial statements of the Company, in order to establish the relevant auditing procedures in the given circumstances, but not with the scope of expressing an opinion regarding the efficacy of internal control of the company. The legal framework regarding the financial reporting comprises:

The law of accounting no. 82/1991, republished, with ulterior modifications and completions (L 82/1991);

The Ordinance of the Ministry of Public Finance no. 3005/2009 regarding the Accounting Regulations in conformity with the IVth Directive of the European Economic Community (EEC) and the accounting regulations in conformity with the VIIth Directive of the European Economic Community and with the International Accounting Standards.

The financial statements herein are not meant to present the financial position and the results of the operations in conformity with the accounting principles and regulations generally accepted in countries and jurisdictions other than Romania. That is the reason for which the owed financial statements are not prepared for the use of the persons who do not know the accounting principles, procedures and regulations from Romania.

4. An audit also includes the evaluation of the degree of adequacy of the accounting policies used and the reasonability of the accounting estimates elaborated by the management, as well as the presentation of the non-consolidated financial situations considered in their entirety.

5. We consider that the audit evidence obtained is sufficient and adequate to constitute the basis of our audit opinion.

The opinion:

6. In our opinion, the financial statements present truly and fairly, from all significant points of view, the financial position of **S.C. M.P. SRL** on the date of the 31st December 2013, and (at) its financial performance and its cash flows associated with that date, in conformity with the International Standards of Financial reporting.

Other aspects:

7. This report of the independent auditor is addressed exclusively to the company's shareholders, in their entirety. Our audit has been executed in order to be able to report to the Company's shareholders those aspects which we must report in an audit report, not in other scopes. To the extent permitted by law, we do not accept and do not take responsibility to other than the Company and its shareholders, for our audit, for our report regarding the non-consolidated financial statements and the report regarding conformity or for the opinion we have formed.

Report regarding the conformity of the administrators' report containing the non-consolidated financial statements

8. The administrators' report is not part of the non-consolidated financial statements. In the administrators' report, we have not identified financial information which is significantly in a disagreement with the information presented in the non-consolidated financial statements herein.

Signature

Alba Iulia, 29.05.2014

Financial auditor SC.XXXCONT SRL CIF.RO xx676820,

Ec. Representative S.G. Certificate CAFR x420

For the preparation of the audit report accounting records (analytic and synthetic) have been requested from the audited company, records which have been utilized by the auditor in expressing his opinion and in preparing the audit report, and which constitute the audit evidence, consisting mainly of: analytic and synthetic trial balances, ledgers, account sheets, VAT journals, bank journals, leasing contracts, invoices which attest the acquisition of fixed assets, ownership documents, loan contracts, declarations regarding the taxes on profit, social contributions, VAT declarations and intra-community reporting, confirmation of company details, the status of the company, various documents of primary accountancy and synthesis which the auditor considered to be useful in his activity.

I mention that all the documents have been presented to the auditing company as hard copies (bearing the signatures of the persons responsible for their preparation, validation and approbation), as well as in electronic format (in some of the situations where the auditor has expressed his wish)

It is important to see that the auditor has had in view the compliance with: ***The Principles of Accounting***, as they are laid out in the Ordinance of the Ministry of Public Finance no. 3005/2009 regarding the Accounting

Regulations in conformity with the IVth Directive of the European Economic Community (EEC) and the accounting regulations in conformity with the VIIth Directive of the European Economic Community and with the International Accounting Standards. Ch. II THE FORMAT AND CONTENT OF ANNUAL FINANCIAL STATEMENTS, ACCOUNTING REGULATIONS”... Going concern principle; Consistency principle; Prudence principle; Matching principle; Valuation of Asset and Liability items; Opening balance; Offsetting; Substance over form; Materiality

The normative framework regarding the internationalization of the audit mission is regulated by the DIRECTIVE 2014/56/UE OF THE EUROPEAN PARLIAMENT AND COUNSEL from 16th April 2014 of altering the Directive 2006/43/CE regarding the legal audit of annual financial statements and of consolidated financial statements.

The Coaching

Within the background of a legislation which leaves room for interpretation, there are many cases when contracting an audit mission depends on external situations (mergers, accessing of structural funds, syndicate pressure etc.) and not on aspects regarding the good management of entities (sometimes those who oppose audits are those who also administer the entities), the coaching comes as a less aggressive alternative to audit.

At the present moment, in the specialized literature the limits of internal audit, i.e. the actual process of acknowledging, elaborating and providing of recommendations, are surpassed by the coaching type of counseling. Thus, coaching is a modern methods of exercising a new profession, of realization or intervention of some new functions or, as the case may be, of financial or non-financial services. The one who provides coaching services is not only a consultant, but is more than that, he capitalizes the recommendations, studies the opportunity and utility of each, creates a hierarchy in time and space according to resources, looks for balance between the internal resources and foreign investments, imagines strategies and elaborates projects, programs, sets the products/services, costs, determines the new value which is created and the profit. The coaching business sector affirms its activity especially in the periods of stagnation or decline, when the vision of the management act of the entity falls behind the dynamics and evolution of the market. The movement solutions of the operative personnel, bare of the organizational culture, or the promotion in managerial functions without having leadership experience have proven to be palliative. In these

cases, the appeal to a coach, to his knowledge and experience in business management, his presence, advice and direct involvement in the operational processes, sometimes even in the decisive ones, not for a short term, but for a long one, may be rescuing solutions. (Rusovici, A., Farmache, S., Rusu, G., 2008, p. 242.)

For the auditors, the continuous improvement of the internal control system helps their clients and permits the reduction of the audit works, as it has as effect the increase of the quality of the documents and of the accounting system. From the point of view of the audit, the internal control system reduces the routine works, the mechanical verifications about the exactness of the accounting and it involves reasoning and judgment, the accentuation of the ensemble exam, analysis, evaluation, and statistical poll. Under the conditions of the existence of internal control, the audit proceeds to a thorough study and an appreciation of this in order to give an opinion regarding the degree of trust which can be granted and, as a consequence, in order to determine the importance of the tests to which the auditing procedures are limited. (Boulescu, M., Ghiță, M., Mareș, V., 2003, pp. 320-321).

Conclusion

Still, by analyzing the facts exposed results an opinion “without reserves” deriving from the fact that for an efficiency of the companies’ activity in the sense of a good management of patrimony, of avoiding fraud, reduce costs, for the maximizing of profits and for reaching the objective on medium and long term, any entity needs coaching, along the audit missions.

Moreover, these activities must not be seen as generators of expenses, but through the lens of future benefits brought by an added future value.

Regardless if the players in the business environment wish to reach or not to: financial audit, internal audit or coaching (in the context in which the legislation does not impose this in each case) sooner or later these activities will self-impose... because it would be the time for all of us, enterprisers, professionals in the economic-financial field, the state institutions, to realize that it is much easier to PREVENT THAN TO CURE A POTENTIAL FAILURE... even if this mission implies certain expenses.

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