SOME ASPECTS REGARDING THE RELATION BETWEEN MANAGEMENT, INTERNAL AUDITOR AND EXTERNAL AUDITOR

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Abstract
Businesses and organizations are in constant confrontation with improving their performance in an environment that provides them with all the guarantees. This improvement is increasingly sought through a decentralization of decision making to ensure appropriateness. In these circumstances, the firm's manager will normally ask questions about the effectiveness of the functioning of the organization, exercised by him and by his collaborators. In this context, communication between management and audit committee, and internal auditor and external auditor could be strengthened and formalized. In this process, internal audit, an independent objective assurance and business advisory, intended to add value and lead to business improvement organization. In Romania, the organization of internal audit in the private sector, there are some problems with a full understanding of the necessity and advantages of this function, which is manifested by poor organization or unorganized internal audit function, even where it is absolutely necessary. Another part of internal communication process regarding position of external auditor. Frequent and regular dialogue with this is essential in the wider context of good corporate governance and for cooperation between entity and stakeholders.

Keywords: internal audit, external auditor, corporate governance, audit committee.

1. Position of internal audit in economic entities structure

Internal audit function involves a company internal audit department independently developing a separate management structure, which aims to ensure that, at all levels of organization, efficiency standards are met and the ethical and economic entity that acts responsibly in its relationships with other members of the economic environment. Thus, organization of internal audit department in the economic entity depends on its size and the adoption of a centralized or decentralized audit. Size is relative and consider whether the economic entity and operating on domestically or internationally. Number of internal auditors to meet the needs of the entity is determined by its size, taking into account the organizational culture, position management and internal audit criteria set by the economic entity's managers. Thus, if a small entity may be a middle compartment from 1 to 3 people at a large national or multinational company number of internal auditors may be much higher, ranging, for example, between 10 and 100. Centralized or decentralized audit is an option on how the teams are located and used by internal auditors.
In general, the internal audit activity is organized in an Internal Audit Department, whose main tasks:
• Report directly to the Board of Directors of the company or Audit Committee;
• Has the authority to investigate the company's operations at all levels while being independent of management, whose role is primarily to promote business efficiency;
• Ensure that principles of corporate governance within the firm.
An internal audit department's assessment of the work initiated on the basis of risk analysis. The audit reports refer to the identified risks or issues observed during the audit and proposed recommendations to improve business.
Members of a team of internal audit professions will vary by company being audited, but typically will consist of specialists in economics (accountant or auditor), specialists in operations (with managerial skills) and an expert IT, taking into account that the effective use of technology is becoming an increasingly important part of modern business.

2. Internal Audit – Corporate Governance component

The Corporate Governance defines the whole concept of corporate governance principles, rules and regulations which provide for administration and management by managers of enterprises, in the interests of current and potential investors in those entities. It is based on an assumption that business managers are able to put in place various mechanisms to control depends on the gains for shareholders and other business partners.
Modern Trends in corporate governance and codes of good practice started in the 90s in the United Kingdom, United States and Canada in response to issues of corporate performance from leading companies. In this case the added loss of perception on effective monitoring of management and its contribution to performance issues.
One of the best known bodies set up in this area, Cadbury Committee was created in 1991 after reducing the competitiveness of enterprises and large groups of English bankruptcy in the early 70s and 80s. He had to answer a series of questions about the directors and managers responsible for financial reporting, relations between shareholders and management, the role of audit committees, financial reporting requirements. After a year, the Committee published its initial findings in the form of a code of good business conduct (code of best practice).
In designing control systems manifest undertaking two concepts, monistic and dualistic.
In Romania, the model recommended by the OECD corporate governance has been introduced since 2007. Thus, under the Company Law, there are two forms of management / corporate governance applicable to companies limited by shares: the (system) unit and two-tier model.
The unitary model is observed three levels of management and execution: The first is noted General Meeting of Shareholders, the supreme governing body of the company, whose decisions taken in accordance with the law, are executive.
On the second level is the Board of Directors as constituted which are elected or, where appropriate, the executive and non-executive directors.
At the third level are advisory bodies working industry focused on the management board may be, such as Audit Committee, Committee for determining pay, etc.. consisting of non-executive directors.
Audit Committee and the remuneration shall consist only of non-executive directors. At least one audit committee member must have experience in the application of accounting principles or financial audit.
In the case of companies whose shares are subject to annual financial statements a statutory requirement for financial auditing, creating an audit committee within the board of directors is required.
In the system of management "dual" are a 'directorate' and a 'supervisory board.' If this system does not have an auditing companies, but are subject to external audit and therefore have an obligation to organize the internal audit function. The Supervisory Board may establish advisory committees for areas such as audit, remuneration of members of the Board. In case of joint stock companies whose financial statements are intended to be auditing, creating an audit committee of the supervisory board is mandatory.

3. Audit Committee

The Audit Committee is a key to improve the quality of financial information both within the company and in relations with third parties. The principles underlying the work of this committee aims to cultivate a climate of control, meaning staff awareness of the need and usefulness of control, identify specific risks, evaluation and monitoring, identification of possible forms of control and needed, update the content and quality, stimulating providing information and communication processes within and outside the enterprise.

The audit committee must be invested with authority from the Board in order to obtain external independent professional advice, to have access to resources and information within the company to have access to discussions with any employee of the firm to lead own investigation and consult on any matter relevant external auditors.

Also, the audit committee is undertaking employment guarantor prevention projects, assuming obligations and responsibilities which are consistent with the statutory objectives, or high risk transactions, such that major harm. The Committee supervises the preparation and presentation of financial reporting, review interim and annual financial information and other information published by the organization to ensure balance and transparency. However, the audit committee monitors the work and resources of the internal control function and its relationship with the company auditor.

Monitoring internal control activity requires the audit committee supervising the quality control environment and the level of understanding by staff of the need for its risk assessment and how they are monitored, understanding and consideration of internal control procedures and internal audit reports, review and presentation of proposals by the Management Board to improve their operations and tracking resolution.

The business relationship with external auditors, the Audit Committee gives independent advice on the selection and appointment of external auditors, participating in the negotiation of fees and expresses its opinion on the competence of the persons nominated. Fall within its remit and review the auditor's financial intervention programs and evaluating the extent to which conclusions have been completed and proposals contained in its audit reports.

In Romania, in accordance with company law, the Audit Committee shall be constituted by the Board of Directors, members of its non-executive or outside it. Audit committee members are elected and removed by the general meeting by secret ballot.

Internal Audit Committee is the body and internal control supervising, elected by the general meeting of shareholders and that I must periodically sieved report financial management of the entity elected. It responds to the law, the shareholders, as well as others who have had dealings with the group financial management.
4. External auditor

In October 2010, European Commission published “Green Paper, Statutory Audit: Lessons from The Crisis”. In this document, the Commission asks whether the relationship between the external auditor, internal auditor and the audit committee is appropriate and regular, and how it can be improved. Current dialogue between them to ensure that there are gaps in the compliance, risk monitoring and verification of assets, liabilities, expenses and revenues. A good example of this relationship is communication in German law, where the external auditor must provide a long-form report. This report is not available to the public, summarizing the details of analytical procedures performed than in the auditor’s report and evidence obtained on the assumption of continuity, development and future risks facing the company, significant disclosures, irregularities, the accounting methods used. This dialogue must not violate the independence of statutory auditors.

In response to this problem, European Federation of Professional Accountants believes that dialogue between management frequently and effectively, including the audit committee, internal auditor and external auditor is crucial in the context of good corporate governance and direct cooperation between the parties involved in public interest entities. Current functioning of audit committees is based on different practices in different countries because of their history and traditions. European Directive on statutory audit establishes a set of principles and procedures for establishment and operation of audit committees in the Member States, but an analysis of the Federation revealed that it is still premature to draw conclusions about current practices on the functioning of audit committees in reduced due to the experience of applying the last form of the Directive.

The Audit Committee plays a pivotal role in the communication process, the interface between structural governance structure and the external auditor. Additional information provided by the external auditor should include:

- Explanations of the nature and extent of audit procedures;
- Comments on the application options of the entity;
- Uncertainties significant accounting errors and control;
- Excessive use of discretionary judgments or professional;
- Points weaknesses in internal control;
- Extent of non-audit services performed for the entity;
- Measures taken to reduce threats independence.

Even though in some countries, like Austria and Germany, providing information is subject to regulations, this information is usually provided by a management letter, drafted in accordance with International Standards on Auditing.

Conclusions

Frequent dialogue and communication between management entity, represented by the Management Board and audit committee, and internal auditor and external auditor is one of the “keys” to ensure a strong government, able to anticipate risks and to look with confidence in the future.
Bibliography

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