

Improving the Internal Managerial Control and the Internal Audit in Relation to the External Audit

Gabriela Mangu (Giurea)
„Valahia” University of Targoviste, Romania
gabriela.giurea@gov.ro

Abstract

In order to verify the management of the various operations present in order to emphasize the objectives, the management of the public entity needs to present outstanding information about the events and actions carried out.

From this point of view, we considered that the establishment and applicability in public entities of the Internal Management Control System is fundamental.

To this end, we conducted a research based on both the analysis of specialized works and the applicable regulations in force at the level of public entities, research followed by the applicability of a study that would indicate the importance of the subject debated.

Key words: Audit, Management, Control, Entity, Performance

J.E.L. classification: H83, M42

1. Introduction

The feasibility of a task of public entities is related to the goals set as the final response of the strategies applied, as well as the planned activities and including the ambiance founded within a public entity that needs to be favorable in order to guarantee the quality of services performed.

In order to achieve its objectives, it is necessary for its management to implement appropriate mechanisms in accordance with applicable laws and regulations.

Such a mechanism is an internal managerial control which, based on specific instructions, leads both to the measurement and to the management and supervision of resources in order to perform favorable premises that reflect the objectives of the entity concerned.

2. Theoretical background

According to Bonollo (2019), *internal audit* is an independent, objective assurance and consulting activity aimed at adding value and improving an organisation's operations.

Looking forward, audits answer the question: *What policies or implementations will need to be reviewed in the future and what is the risk?*

As the public sector audit focuses on trends, it helps to make decisions. Auditors also help managers understand and initiate risk assessment. Even the own risk assessment of the audit ensures that audit resources are also used efficiently in areas with higher risk exposures. Through these roles, auditing protects core public values.

By providing an overall audit, evaluation of prospective activities for entities, public sector auditors contribute to the transparency, integrity and fairness of the activities conducted by managers and officials.

However, internal audit may have an advantage in the organization due to the understanding and familiarity of operations, but may also influence and increase public confidence due to the fact that its independence cannot be maintained or established with certainty.

3. Research methodology

The research units are represented by internal and external auditors, from the central public entities at the level of Bucharest.

Of the 687 questionnaires distributed at the level of central public entities in Bucharest, a total of 377 questionnaires were returned, obtaining a response rate of 54.8%, in January-February 2020, the analysis being finally performed on 175 questionnaires valid.

The analysis for the survey for internal auditors was based on 370 usable questionnaires (usable response rate = 53.8%) returned at the beginning of January 2020.

The analysis for the survey of external auditors was based on 180 questionnaires out of 210 questionnaires sent to external auditors, obtaining a response rate of 85.7%.

Table no. 1 contains the description and response rate for the sample in both the internal auditors and the external auditors.

Table no. 1 Response rate

<i>SURVEY FOR INTERNAL AUDITORS</i>	Number	Usable response rate
Total number of questionnaires distributed	687	100.00%
Total number of questionnaires received from respondents	377	54.8%
Less:		
Public entities that have outsourced their AI function	(5)	
Retirement of the head of the public entity	(1)	
Impossible to answer	(1)	
Total usable questionnaire	370	53.8%
<i>SURVEY FOR EXTERNAL AUDITORS</i>		
Total number of questionnaires distributed	210	100.00%
Total number of questionnaires received from respondents	180	85.7%
Less:		
The external auditor withdrew	(1)	
He is no longer appointed external auditor for the public entity	(4)	
Total usable questionnaire	175	83.3%

Source: (own conception)

After excluding five unusable questionnaires, 175 questionnaires were used for analysis (usable response rate = 72.9%).

The main objective is to present the results of the questionnaire addressed to both internal and external auditors and the results of testing the proposals made for the study.

The data analysis is structured separately for surveys addressed to internal auditors and external auditors.

Part I highlights the descriptive statistics that refer to all the variables involved in Model no. 1, the results of the analysis of multiple regression and ordinal regression for Model no. 1 (*level of perception of internal and external auditors regarding the profession of auditor*).

Part II presents the descriptive statistics that refer to all the variables involved in Model 2, the results of the analysis of the statistics of Pearson correlation coefficients and the results of multiple regression and binary logistic regression for Model no. 2 (*level of perception of internal and external auditors regarding the improvement of the Internal Management Control System*).

Data analysis for testing proposals for Model no. 1 and the proposals within Model no. 2 of this study is based on a multiple regression analysis, and the dependent construct of both models is scaled on a 5-point Likert scale.

However, there are some proposals underlying the multiple regression model that need to be checked to see if the errors in the predictions are caused by data characteristics that are not suitable for multiple regression analysis.

The proposals were tested using Model no. 1 in the following equation:

$$PA_i = b_0 + b_1 C C_i + b_2 R_i + b_3 C_i + b_4 I_i + e$$

Where: PA_i = Profession of auditor;

CC_i = Behavior and conduct;

R_i = Reputation of the audit profession;

C_i = Requirements of the auditor profession;

I_i = the image formed regarding the audit profession in the context of evaluating the link between the internal managerial control and the internal audit in relation to the external audit;

b₀ - b₄ = Multiple regression coefficients;

e = Residual error term.

The main research objectives were tested using Model no. 2, based on an equation, as follows:

$$SCIM_i = b_0 + b_1 F_i + b_2 R_i + b_3 PR_i + b_4 DIF_i + e$$

Where:

SCIM_i = Improving the Internal Management Control System;

F_i = Performing functions and duties in an economical, efficient and effective manner;

R_i = Compliance with legal regulations and management provisions;

PR_i = Protecting resources against abuse, loss or fraud;

DIF_i = Development, maintenance and provision of accurate and complete financial information;

b₀ - b₄ = Multiple regression coefficients;

e = Residual error term.

4. Findings

The content analysis process is one of the formal procedures to clarify the meaning and interpret qualitative data using the location of key themes, models and ideas within the data.

Statistical analysis was not performed because the interview data obtained in this study were only to clarify and further explain the survey responses. Moreover, the small number of participants in the interview was insufficient to perform statistical analyzes.

Four hypotheses were examined as possible influences on the level of perception of internal and external auditors regarding the future of the auditing profession. The possible influence of each of these constructs is discussed below.

Model no. 1 is an exploratory research and therefore a series of research proposals for each construct is presented, rather than a list of hypotheses.

Results Model no. 1 investigated the perception of internal and external auditors in relation to the audit profession.

In relation to the dependent variable, the level of perception related to the profession of auditor (PA_i), internal auditors report that they had a degree of positive perception of the profession of auditor, unlike external auditors, which was higher than the average point value. of 3 on the five-point scale.

Table no. 2 Validation of hypotheses - Research objective no. 1

Objective	Hypotheses	Hypothesis validation
1. The future of the auditing profession and connections with education	1. How is the perceived negative behavior of internal and external public auditors perceived?	Yes
	2. Is there a positive reputation for the auditing profession?	Yes
	3. What are the requirements of the auditing profession?	Yes
	4. How is the image formed about the audit profession perceived in the context of evaluating the link between internal managerial control and internal audit in relation to external audit?	Yes

Source: (own conception)

Model no. 1 used in this study is considered a unique model because it has never been tested before and therefore the findings cannot be compared with previous research.

From the analysis, it is found that both internal and external auditors within the central public entities in Bucharest perceive that there is a positive level of perception related to the audit profession.

Model no. 2 investigated the factors that lead to the improvement of the Internal Managerial Control System.

Table no. 3 Validation of hypotheses - Research objective no. 2

Objective	Hypotheses	Hypothesis validation
2. Analysis of the process of improving the Internal Management Control System	1. How is the perceived negative behavior of internal and external public auditors perceived?	No
	2. Is there a way to comply with legal regulations and management provisions?	Yes
	3. Are there measures in place to protect resources against abuse, loss or fraud?	No
	4. Can measures be taken to develop, maintain and provide accurate and complete financial information?	No

Source: (own conception)

Most of the findings from Model no. 2 are in contradiction with the results of previous studies.

These contradictory findings may be due to the context of the study, as previous studies have focused on the private sector and the current study focuses on the public sector. The findings may also differ due to the research methods used.

Most previous studies used experimental case studies, while the current study used the questionnaire (survey) for research methods.

4. Conclusions

The implementation of the internal managerial control system, through its own human resources, ensures both their continuous professional improvement and the elimination of additional counseling expenses in the field.

Given the benefits mentioned above, it is considered that the entrustment of third parties to carry out activities on the implementation and development of the internal management control system of the public entity is not adequate to fulfill the mission of the public entity.

At the level of the empirical framework, the results of the findings are explained and discussed based on the analysis performed based on the data collected.

The results are discussed by relating the different sources. The accumulated data were analyzed using descriptive statistics, frequency distribution, correlation analysis and multiple linear regression.

The approach tried to achieve the objectives of the study, to answer the research questions and to test the hypotheses.

5. References

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