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GROWTH OF MANAGERIAL PERFORMANCE BY IMPROVING AUDITING ACTIVITY

Methodological
articles

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Abstract

To reflect the place and role of internal audit in the economic entity and its function as assistant manager in this paper we followed the presentation of the preliminary assumptions of a model for measuring the quality of internal audit. Also, we presented a possible model of research regarding managerial effectiveness. Questions that sought answer in this research are: How can we streamline internal audit? What is meant by effective internal audit? What is the relationship between internal audit efficiency and performance management? Recording a high level of performance of internal audit provide a high level of performance of the whole economic entity. Of course, responsible for the implementation of recommendations made by the Internal Auditor is the manager, but in our opinion, as long as the internal audit department conducts activities / tasks with maximum seriousness, conscientiousness and professionalism, the manager will be to some extent forced to implement the recommendations, having a high confidence in those.

Internal audit is an activity which offers the top management of the organization's continued assistance to increase efficiency, capacity control and management capacity of specific organizational processes (Zecheru&Nastase, 2005).

According to IIA (Institute of Internal Auditors) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Arens& Elder, 2010).

Internal audit has two features, features that belong to the factual and legal human activities in general, namely (Susmanschi, 2013):

It has a character of finality, in that it has a pre-set goal, which according to IIA (Institute of Internal Auditors) is to add value to the company;

it has a functional character, in the sense that it seeks the satisfaction of needs of the enterprise.

It is believed that confusion in a firm increases with the hierarchical level, the importance of the audit functions being confirmed to all users, but especially in the area of management.

Sometimes no matter how good managers they are, they need consultation, another opinion to confirm or refute what they or others parties believe. Exactly this makes internal audit in the company: Analyzes, verifies, confirms or refutes the results obtained in a given time.

Internal Audit Assistance Management involves two directions of action (figure 1. Directions of action of internal audit as a management assistant) and formulation of inherent quality assurance in the domain audited and formulation of recommendations to improve organization's operations, thus internalizing added value.

Internal Audit supports the economic entity to achieve management objectives and provides help in increasing the efficiency, capacity control and the ability to manage resources and processes.

We can say about internal audit that is a promoter of the added value by the fact that it saves, creates opportunities, and helps to avoid losses by its actions.

As a key process and whether it involves a large or a small number of employees, internal audit is a complex process, which requires multidisciplinary knowledge and important documentation. Like any other process, audit process can be improved (Susmanschi&Spineanu, 2013).

Improving a process (any process) of the entity, on the principle of overall effects (local effort, global effect) will have positive effects on the entire company.

However, a benefit brought by internal audit may be the fact that it changes the mindset of those audited, even if there is no unity measure to track their progress.

In general, the analysis of significant financial failures most managers revealed their causes following:

- Lack of compliance with policies and procedures;
- Risks unidentified in time;
- Identified risks but these have been assessed as unlikely to occur and had major influences in the near future;
- Weaknesses in the internal control system etc.

Based on the above findings may be issued a series of unfavourable judgments regarding management as follows:

- Failure to internal policies and procedures as the cause of the failure of the company, leading to the conclusion that management failed to fulfill a fundamental role;
- Unidentified risks or incorrect assessment that identified risks are unlikely to occur due to insufficient attention;
- Failure to update systematic risk analysis and lack of interest to determine managers and other employees to assess their roles

contribute to the emergence of weaknesses in internal control system of the organization.

From the above it follows that one of the roles of internal auditors is to empower managers, which in turn empower other employees. However, internal auditors are bound to be pertinent in their recommendations so that managers understand the recommendations and be able to put them into practice in order to avoid possible hazards.

By empowering mindset change in management, we can change how economic entity is viewed by managers and other employees.

However, due to accountability and changing attitudes, management will pay a proper attention to risk management activity. In this way risks can be identified and evaluated more easily. Also, errors and deficiencies can be corrected, preventing or decreasing, as appropriate, financial or material losses.

At the same time, we can measure the value of internal audit by assessing the financial impact of the economic entity in the future respectively if due to internal audit there were financial added values.

The fact is that, although the purpose of internal audit is to check activities undertaken by others, internal auditors should consider the fact that they themselves must demonstrate that the activities they carry out are productive, denote performance and lead to overall performance of the economic entity audited.

To reflect the place and role of internal audit in the economic entity and its function as assistant manager we present some preliminary assumptions of a model for measuring the quality of internal audit in order to improve management.

Thus, we start from the following premises:

[1]. All managers working under contract are interested in preserving capital, increasing performance and reducing costs to maximize wealth.

[2]. Managers can choose models of accounting policies, assumptions directed either to the past or to the future choices or assumptions.

[3]. By type of dominant decisions and activities for the period, managers select accounting policies for reporting the financial position and performance.

[4]. The company is a joint contract between the parties which have diverging interests.

[5]. Conflict resolution rules apply based on assumed democratic will of the majority, which means limiting the opportunities for intervention on the transfer of wealth.

[6]. Any management system manages resources effectively only through procedures and practices of accounting and auditing if it optimizes the cost, quality and time to assist competent decisions.

[7]. Contract agents seek to maximize utility.

[8]. Utility through competitive advantage leads to opportunism and manipulation by creative techniques.

[9]. Between external and internal environment of the economic entity is created an informational asymmetry and decisions are partly uncontrollable.

[10]. Accounting choices and options for audit imply costs, the quality is directly proportional to the efficient allocation of costs.

[11]. Audit accounting choices and options are based on the obligations imposed by the contract, but can generate information asymmetry and risks partially uncontrollable.

Table 1 represents a possible model of managerial effectiveness research. (Table 1. Model of managerial effectiveness research)

Questions who sought answer in this research are:

How can we streamline internal audit?

What is meant by effective internal audit?

Why is it necessary improving internal audit function?

What is the relationship between internal audit efficiency and performance management?

First of all in order to establish the way of improving the internal audit it should be evaluated and analyzed internal audit performances within the economic entity.

By registering a high level of performance of internal audit directly it ensures a high level of performance of the economic entity. Of course, responsible for the implementation of recommendations made by the Internal Auditor is the manager, but in our opinion, as long as the internal audit department conducts activities / tasks with maximum seriousness, conscientiousness and professionalism, the manager will be to some extent forced to implement the recommendations, having a high confidence in those.

Specifically, internal audits can be more efficient by:

An accurate and detailed assessment of internal audit to determine the level of overall performance and categories of indicators in order to identify what is and can be improved;

Identify and implement procedures / methods basically looking for ways to lighten the work, to diminish their efforts, but with maximal effects. This is especially true for the internal auditor's working papers which demand time and effort, when the auditor could allocate more attention to risk analysis;

Ensuring that internal department has unrestricted access to all information / data about the economic entity and processes audited, as a full and adequate internal audit helps to properly assess processes and be able to find ways to improve. Not

knowing the full aspects of a process could lead to the development of incomplete recommendations;

Ensuring that there are sufficient resources allocated to internal audit mission;

A continuous professional specialization of internal auditors, that they are aware of the news in the field and are able to cope with the dynamic business environment;

Ensuring of a good knowledge of the economic entity and processes audited. This does not mean that the internal auditor should have extensive knowledge in manufacturing, for example. The internal auditor cannot and does not need to be an expert in every process/activity audited. His duty is to show understanding, to be able to look at the processes audited as a whole and in detail to capture any irregularities.

Streamlining internal audit we streamline processes / activities leading to an increase in the overall performance of the entity, which means that there is an increase in managerial performance.

Reference list:

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Table 1.
Model of managerial effectiveness research

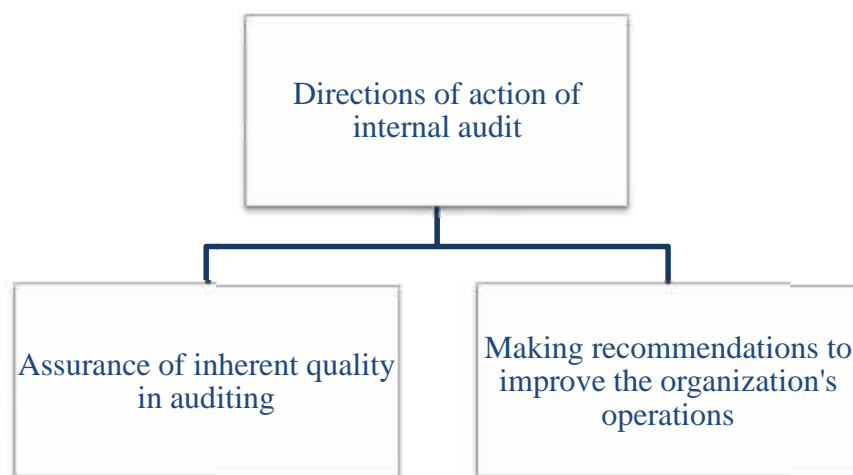
No.	Domain	Assumptions
1	Judicial	<p><i>Efficiency requires:</i></p> <ul style="list-style-type: none"> • <i>Compliance with rules</i> • <i>Counselling</i> • <i>Training</i> • <i>Correct implementation</i>
2	Economical	<ul style="list-style-type: none"> • <i>Resource control requires an accounting model estimation and evaluation.</i> • <i>Efficiency involves measuring the performance of the financial reporting and control.</i> • <i>An economic model of efficiency involves controlled budget, costs and measure of deviations from established standards.</i> • <i>Efficiency requires anticipation, control, coordination and supervision of accounting and auditing techniques.</i> • <i>Coordination stable impose risk control.</i> • <i>Efficiency involves increasing or decreasing results with constant inputs.</i> • <i>Efficiency requires consistent results with decreasing contributions.</i> • <i>Efficiency involves decreasing results conservation and maintenance to avoid major risks.</i>
3	Administrative	<ul style="list-style-type: none"> • <i>The company is a joint contract.</i> • <i>The hierarchy of functions and powers is controlled and driven by stable preferences.</i> • <i>Interests can generate information asymmetry.</i> • <i>Efficiency involves achieving the targets.</i> • <i>Efficiency involves the production of evidence that the internal environment works by established standards.</i> • <i>Effectiveness of risk and appropriate means to flexibly adapt to changes in the external environment.</i>
4	Financial	<ul style="list-style-type: none"> • <i>All activities are consuming resources and producing results.</i> • <i>Measuring efficiency requires stable comparisons between effort and effect.</i> • <i>Predictive analysis requires models to optimize resources, control costs and remuneration of the factors of capital.</i>
5	Informational	<ul style="list-style-type: none"> • <i>Maintain the effectiveness of a cycle of adaptation decisions.</i> • <i>Hierarchy and correct communication channels.</i> • <i>Effective informal relations.</i> • <i>Flexible adaptation to changes in new information technologies.</i> • <i>Uniformity and stability training.</i> • <i>Stability and strength in the correct application procedures.</i>
6	Psychological	<ul style="list-style-type: none"> • <i>Efficiency faculty of adaptation, problem solving, action</i>

and flexibility to change are characteristics of people informed decisions.

- *Efficiency requires stability and personal identity in line with the company's predictive values.*
- *Ability to understand, to grasp and interpret the reality is a characteristic of successful people who know how to learn and apply the right principles.*
- *The cost of human capital has hidden parts uncontrollable effects: apathy, distrust, superficiality, rivalry, hostility, etc.*

7	<i>Materials efficiency</i>	<i>resources'</i>	<ul style="list-style-type: none"> • <i>Balance control regarding manufacturing / production capacity.</i> • <i>Efficiency must focus on quality control inputs.</i> • <i>Effectiveness must focus on quality control outputs.</i> • <i>Applying a model of feedback to adapt to change.</i>
8	<i>Human efficiency</i>	<i>resources'</i>	<ul style="list-style-type: none"> • <i>Leadership</i> • <i>Ensure climate of cooperation</i> • <i>Models of organizational culture</i> • <i>Maintaining wellbeing</i> • <i>Reliability</i> • <i>Solidarity</i> • <i>Behaviour civic</i> • <i>Preventing and controlling stress</i>
9	<i>Effectiveness of communication</i>	<i>of</i>	<ul style="list-style-type: none"> • <i>Adaptation to communication in virtual</i> • <i>Support and training for technical solutions</i> • <i>Treatment varied according to the type of decision</i>
10	<i>Effectiveness of learning and organizational health</i>	<i>organizational</i>	<ul style="list-style-type: none"> • <i>Management focused on valuing knowledge workers.</i> • <i>Transfer knowledge from routinely integrated skills.</i> • <i>Transfer of interdependence to the symbolic analyst group or outsourced network.</i> • <i>Intensive communication by focusing on cultural solutions verified and authentic.</i> • <i>Organizational health diagnostic capacity requires a control of symptoms to prevent illness and the possibility of incurring high costs, it is cheaper to prevent more expensive to treat.</i> • <i>The chance of success is the shift from autarkic approach to the export or import of knowledge by integrating new solutions, from hierarchies to networks, consultancy and audit default.</i>

Source: personal representation



*Figure 1.*Directions of action of internal audit as a management assistant
Source: personal representation