

THE UNIVERSITY OF CRAIOVA
THE FACULTY OF ECONOMY AND BUSINESS ADMINISTRATION
DOCTORAL CANDIDATE SCHOOL IN ECONOMICS SCIENCES
ACCOUNTING FIELD

SUMMARY

of the Ph D thesis

The financial-accounting activity, subject for internal audit in road transport

Scientific supervisor,
Prof.univ.dr. Constanța IACOB

PhD
CALOTĂ George

**Craiova,
2010**

CONTENTS

List of tables

List of figures

List of abbreviations

INTRODUCTION

Chapter I INTERNAL AUDIT – MEANS FOR AN EFFICIENT ADMINISTRATION OF ECONOMICAL ENTITIES. GENESIS AND POSITIONING

- 1.1. Historical landmarks of the internal audit
 - 1.1.1. Reference elements for internal audit
 - 1.1.2. Retrospective and perspectives in the internal audit's evolution
 - 1.1.3. Defining the internal audit
- 1.2. The characteristics of internal audit
 - 1.2.1. The universality
 - 1.2.2. The independence and objectivity of internal audit
 - 1.2.3. The ethics dimension
 - 1.2.4. The periodicity
- 1.3. Types of audit
 - 1.3.1. The regularity audit
 - 1.3.2. The system audit
 - 1.3.3. The performance audit
 - 1.3.4. A parallel between the regularity audit, the system audit and the performance audit
- 1.4. Positioning the internal audit function within the entity
 - 1.4.1. The relational overall Internal Control – Internal audit
 - 1.4.2. The relational overall Internal Audit – External audit
 - 1.4.3. The relation between internal audit and external consultancy
 - 1.4.4. The relation between internal audit and inspection

Chapter II THE NECESSITY FOR AUDITING THE FINANCIAL-ACCOUNTING ACTIVITY WITHIN THE ENTITIES FROM THE ROAD TRANSPORT

- 2.1. General aspects regarding the transportation activity
 - 2.1.1. The place of transportation services within the tertiary sector
 - 2.1.2. The place and role of the urban transportation for people within the transport activity
 - 2.1.3. The organization and function of the urban transport within the Craiova municipality
- 2.2. The financial-accounting management, component of the management of the road transport units
 - 2.2.1. Delimitations and substantiations regarding the financial-accounting management of road transport units
 - 2.2.2. The financial-accounting information – means of communication between the management of the road transport entities

- 2.2.3. The need for financial-accounting information on the road transport market
- 2.3. The need for auditing the financial-accounting activity
 - 2.3.1. The role of internal audit in obtaining pertinent and reliable financial-accounting information
 - 2.3.2. The need for the evaluation of the financial-accounting system
 - 2.3.3. The role of internal audit in the optimization of the usage of resources (value for money)

Chapter III THE METHODOLOGICAL PARTICULARITIES OF THE PREPARATION OF THE INTERNAL AUDIT MISSION REGARDING THE FINANCIAL-ACCOUNTING ACTIVITY IN THE ROAD TRANSPORT

- 3.1. The theoretical and practical approach regarding the development of a regularity internal audit mission
- 3.2. The main aspects regarding the preparation of the internal audit mission
 - 3.2.1. Assuring the necessary conditions for the development of the internal audit mission
 - 3.2.2. Collecting and processing the information
 - 3.2.3. The risk analysis for drawing the internal audit schedule
 - 3.2.3.1. The risk analysis
 - 3.2.3.2. The elaboration of the internal audit schedule
 - 3.2.3.3. The opening meeting
 - 3.2.4. The elaboration of the internal audit schedule at the Autonomous Administration for Transportation Craiova

Chapter IV THE DEMANDINGS OF UNFOLDING AND FINALIZING THE INTERNAL AUDIT MISSION REGARDING THE FINANCIAL-ACCOUNTING ACTIVITY WITHIN ROAD TRANSPORT UNDER THE CURRENT NATIONAL AND INTERNATIONAL REGULATIONS

- 4.1. The characteristics and procedures specific for the stage Intervention on spot
 - 4.1.1. Audit evidences – essential elements for internal audit under the International Standards for Internal Audit
 - 4.1.2. The techniques and instruments used in the audit of the financial-accounting activity
 - 4.1.2.1. Internal audit techniques
 - 4.1.2.2. Internal audit instruments
 - 4.1.2.3. Sampling
 - 4.1.3. Ascertaining and reporting irregularities
 - 4.1.4. Considerations regarding the completion of the intervention on spot stage
 - 4.1.4.1. Revising the working documents
 - 4.1.4.2. The closing meeting
 - 4.1.4.3. The evaluation of the compliance of the financial-accounting activity at the Autonomous Administration for Transportation Craiova
- 4.2. 4.2. The methodology for the elaboration and distribution of the internal audit report
 - 4.2.1. Relevant theoretical aspects regarding the elaboration of the Internal audit report project

- 4.2.2. Drawing the Internal audit report
 - 4.2.2.1. Transmission of the internal audit report project
 - 4.2.2.2. The conciliation reunion
 - 4.2.2.3. Drawing the internal audit report
- 4.2.3. Transmission of the internal audit report
- 4.3. 4.3. The necessity and importance for following-up the recommendations
- 4.4. 4.4. Assurance and improvement of the quality of the internal audit activity
- 4.5. 4.5. Considerations regarding the realization of the supervision activity

Chapter V OPINIONS REGARDING THE USAGE OF BENCHMARKING WITHIN PERFORMANCE AUDIT

- 5.1. The relation between the administration of performance and performance audit
 - 5.1.1. Management through objectives
 - 5.1.2. Establishing “smart objectives”
 - 5.1.3. The mechanism for measuring the performance
 - 5.1.3.1. Building the indicators regarding the economy (inputs)
 - 5.1.3.2. Building the indicators for measuring the effectiveness (result)
 - 5.1.3.3. The indicators regarding the efficiency
- 5.2. Using benchmarking in performance audit
 - 5.2.1 Using benchmarking by generally comparing entities
 - 5.2.2 Using benchmarking through performance indicators
 - 5.2.3. Using benchmarking in the systematic analysis of processes
- 5.3 5.3. Possibilities for using benchmarking for the audit the Autonomous Administration for Transportation Craiova

**CONCLUSIONS
ANNEXES
BIBLIOGRAPHY**

KEY-WORDS

The informational content of the Ph D thesis ***The financial-accounting activity, subject for internal audit in transportation*** can be synthesized through the following key-words: *internal audit, transportation, financial-accounting activity, regularity audit, system audit, performance audit, financial-accounting management, financial-accounting information, financial-accounting system, risk, risk analysis, internal audit schedule, audit evidences, internal audit instruments, the audit lead, observation forms, questionnaire, internal audit techniques, sampling, supervision, internal audit report, recommendation, management through objectives, SMART objectives, economic indicators, efficiency indicators, efficacy indicators, benchmarking.*

SYNTHESIS OF THE MAIN SECTIONS OF THE Ph D THESIS

The Ph D thesis entitled „***The financial-accounting activity, subject for internal audit in road transport***” represents the result of a scientific documentation and research that were focused on the role of internal audit and the possibilities for improving this activity so that it can sustain the management of an entity from the transportation field in realizing its objectives under conditions of economy, efficiency and effectiveness.

For achieving the proposed goals, the thesis was structured as follows: introduction, five chapters in which are approached both theoretical aspects from specialized literature, different opinions from specialists, and practical aspects observed within the research, conclusions, annexes and bibliography.

In the „***Introduction***” it is argued the topicality of the research theme, there are defined the objectives and purpose of the research, and also the scientific newness and the theoretical meaning of the thesis.

The first chapter „***Internal audit – means for an efficient administration of economical entities. Genesis and positioning***” treats the problems regarding the general aspects concerning internal audit that are detached from the specialized literature concerning the definition, delimitation, evolution and the integration of this function within the entity together with the other functions. Starting from the fact that audit, accounting and control have common sources, it is highlighted the idea according to which, a definitory element, establish by both the International Standards for Internal Audit and the national normative frame, it is represented by the separation of internal audit activities from the control activities, and also from the other activities unfolded within an entity.

Under the current exigencies, it is imposed that all factors interested in the evolution of an entity, to know the role of internal audit, respectively to issue, for the general management, on the basis of tests and analysis, an assurance regarding the quality of the entity’s internal control system. Also, internal audit must support the management in establishing the control instruments, by evaluating their effectiveness and efficiency and by helping with their on going improvement.

Nevertheless, it is absolutely necessary for the internal audit to never become part of “*integrated control procedures*”. The audit can only assure and advise with regards to the control instruments, but can not effectively execute them.

In such context, the internal audit function can not exist isolated within an entity but on the contrary between it and other functions like internal control, external control, inspection, external consultancy must exist a collaboration or complementary relation.

Starting from the general definition according to which internal audit offers assurance and advise to management for a better administration of resources through the perfection of the entity’s activities, the chapter presents the perspectives of evolution for this function under the conditions of the current crisis, and also the main types of internal audit identified according to the manner in which this activity achieves its objectives.

In the second chapter „***The necessity for auditing the financial-accounting activity within the entities from the road transport***” it is presented the importance of the financial-accounting information for the transportation field, given the complexity of the activity of an entity that unfolds its activity in this sector, the many factors that are interested and the diversity of their requirements. Taking into consideration these aspects, in a distinct paragraph it was highlighted the role of the internal audit in assuring reliable financial-accounting information, as a basis for the management’s decisions; supplying an independent opinion with regards to the functionality of the internal control system of the financial-accounting activity; the assesment of the management’s performance in its demarches for an economic, efficient and effective

usage of available resources; and also in supplying some solutions for the improvement of the activities of an entity having, as a starting point, the information supplied in the annual financial situations.

In the third chapter entitled „**The methodological particularities of the preparation of the internal audit mission regarding the financial-accounting activity in the road transport**”, the stage *Preparation of the audit mission* it is presented as a logical succession of procedures that have the objective to assure the conditions needed for the internal audit team to be able to supply an opinion with regards to the manner in which within the financial-accounting compartment the normative frame was respected and, if it is the case, the national practice.

Due to its importance, the issues for the preparation of the internal audit mission has been the subject to numerous theoretical and empirical studies. Specific for this stage it is the fact that there are called the capacities for analysis, synthesis and sense of deduction of the auditor with the purpose for supplying real information, in order to reflect their order for unfolding and the context in which the activity takes place.

A distinct aspect, presented within this chapter, treats the issues regarding the identification activities and the risk analysis needed for planning the internal audit mission that has, as a result, the elaboration of the *Internal audit schedule*. These activities represent a distinct feature of internal audit and also that distinguish it from the other functions of the entity.

In this chapter there are presented the documents prepared within this stage, completed with specific elements regarding the financial-accounting activity.

Considerații privind „**The demandings of unfolding and finalizing the internal audit mission regarding the financial-accounting activity within road transport under the current national and international regulations**” are found in the fourth chapter, that comprises the approach under the aspects of presenting the stages: *On the spot intervention, Internal audit report and following-up the recommendations*.

In order to supply a pertinent opinion with regards to the functionality of the internal control systems, the auditor collects a series of evidence elements that represent the basis for ascertainment, conclusions and formulated recommendations. For achieving this goal he uses specific techniques and instruments. These techniques and instruments and also the procedures specific for the stage *Intervention on spot* are treated in detail being accompanied by practical examples within the first paragraph of this chapter.

On the basis of the evaluation of the unfolded activity within the *On the spot* stage it is elaborated the internal audit report that it is distributed to the audited structure/entity and subsequently after the proposed modifications are made and accepted by the internal auditors, it is distributed, for approval, to the management of the entity. The aspects regarding its content, shape, manner and style of framing of the Internal audit report, and also of those regarding the sequence of procedures that must be regarded, the unfolded activities and the documents that are being elaborated within the Internal audit report stage are presented within the second paragraph of this chapter.

In order to realize an evaluation of the effectiveness of the unfolded activities and to verify the reliability of the proposed solution for resolving the identified problems, the internal audit practice recommends the follow-up of the manner in which the audited entity/structure respects the *Action plan for the implementation of recommendations*. Because of these considerations, within this chapter, it was distinctly treated the issues of follow-up recommendations.

The last debated aspect it is represented by the issue regarding the *Program for quality assurance and improvement*. Through this program it is followed the assurance for the realization of the internal audit objectives, the compliance with norms, instructions and the ethic code by the internal auditors and the professional

development of the personnel within the internal audit structure. Realizing and updating such a program implies an external evaluation, internal evaluation and the continuous monitoring of the internal audit compartment (supervision).

Within the fifth chapter „**Opinions regarding the usage of benchmarking within performance audit**” it was realized a theoretical and practical approach for performance audit with the purpose in *promoting and encouraging the usage of the benchmarking method in the performance audit in Romania*.

Starting from the premise that the performance audit examines if the established criteria for implementing objectives are correct for the evaluation of results and if it is ascertained that the results are in line with the objectives, in the first paragraph of this chapter it is approached the relation between performance and performance audit. It was insisted on the fact that the activity of an economic entity from the transportation field can not be advanced unless there are the conditions for the management to establish a set of **SMART** objectives and to these there were attached indicators that are aimed to be achieved. This situation comes from the fact that such entities have not implemented the management system through objectives.

Under these facts presented above, the second part of the fifth chapter, presents the characteristics of the benchmarking techniques, the need for it to be applied in the performance audit, and also the main types used in the international practice of internal audit. The results of this research were put in practice by the conception of a study case, using the data supplied by the financial situations issued by the two representative economical entities for Romanian transportation, Autonomous Administration for Transportation Craiova and Autonomous Administration for Transportation Timisoara.

From this research, it was found that, after a benchmarking study, the solutions can be identified, and after putting them into practice, they lead to an increase in the performance of an entity from the transportation field.

The solutions that were identified as being reliable since they are tested by practice, and by applying them to the entities from the Romanian transportation field, it can assist in overcoming the crisis period. Such solution regard:

- The implementation of a smart GPS traffic system - SGPS;
- The initiation of demarches that will be finalized with the elaboration, substantiation and approval of a Local Council's Decision through which all travels for students and pupils are to be subsidized for up to 50% from their value;
- The increase of revenues generated by the advertising activity;
- The redesign of the marketing policy.

The paper it is completed by a set of **general conclusions** that are emerging from the thesis regarding the place of the internal audit function within the entity, the place and role of urban transportation for people within the transportation activity, the need for financial-accounting information on the transportation market, the need for auditing the financial-accounting activity, the methodology for unfolding an internal audit mission for regularity audit, the internal audit techniques, the internal audit instruments, the need for assurance and improvement of the quality of the audit activity, the benefits from using the benchmarking technique, the topicality at an international level of the debated issues.

The dimension of the results coming from the unfolded research, with the purpose of elaborating the Ph D thesis was realized through publication in specialization magazines and/or through a series of conferences with a national and international recognition.