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INTERNAL AUDIT IN ROMANIA VS UKRAINE

Метою статті є аналіз ролей та відповідальності внутрішнього аудиту в Румунії та Україні. Досліджено 28 румунських та українських компаній у фінансовому секторі. У Румунії та Україні важливо встановити та запровадити стандарти та практику для належного функціонування організацій. Внутрішній аудитор є ключовим елементом процесу корпоративного управління, надаючи рекомендації щодо процесів управління ризиками, управління та внутрішнього контролю. У дослідженні аналізується функція внутрішнього аудиту, ролі та обов'язки внутрішнього аудитора, такі, як допомога керівництву, забезпечення дотримання кодексу корпоративного управління, законодавства, правил і процедур, що застосовуються до суб'єкта господарювання, оцінювання ефективності всіх операцій суб'єкта господарювання, моніторинг системи управління ризиками, перевірка фінансової та бухгалтерської звітності та виконання тимчасових місій внутрішнього аудиту. Результати свідчать про значний відсоток існування відділів внутрішнього аудиту в обох країнах та підвищений інтерес до діяльності моніторингу системи управління ризиками. Слабкою стороною є те, що в обох країнах спостерігається відсутність контролю за всіма операціями всередині підприємства з боку відділу внутрішнього аудиту. В Україні зростає занепокоєння щодо дотримання правової бази та внутрішніх правил компаній, але Румунія представляє децю більший ступінь зацікавленості в інших аналізованих видах діяльності. Обидві країни виявили великий інтерес до виявлення конвергентних елементів у практиці внутрішнього аудиту, і результати показують орієнтовану на прогрес тенденцію як для румунських, так і для українських компаній.

Ключові слова: внутрішній аудитор, фінансовий сектор, корпоративне управління, система внутрішнього контролю, управління ризиками, ефективність аудиту

The aim of this paper is to analyse the internal audit roles and responsibilities in Romania and Ukraine. The sample consists of 28 Romanian and Ukrainian companies within the financial sector. In Romania and Ukraine establishing and implementing standards and practices for the good functioning of organizations is essential. The internal auditor represents a key element in the corporative governance process and provides insight into and recommendations about risk management, governance and internal control processes. The study analyses the internal audit function considering the existence of the internal audit department and roles and responsibilities of the internal auditor such as assisting the management, providing assurance of compliance with the corporate governance code, legislation, rules and procedures applicable to the entity, carrying out an assessment of the effectiveness of all operations within the entity, monitoring the risk management system, verifying financial and accounting reporting and carrying out ad hoc internal audit missions. The results show a significant percentage for the existence of internal audit departments for both countries and an increased interest in the activity of monitoring the risk management system. As a weak point, in both countries there is a lack of control of all operations within the entity by the internal audit department. In Ukraine there is a growing concern about the compliance with the legal framework and the internal rules of the companies, but Romania presents a slightly greater degree of interest in the other activities analysed. Both countries presented major interest in the discovery of convergent elements in internal audit practices and the findings show a progress-oriented line for both Romanian and Ukrainian companies.

Keywords: *internal auditor, financial sector, corporate governance, internal control system, risk management, audit efficiency*

1. Introduction

The purpose of the paper is to analyse the level of involvement and the effectiveness of the internal audit departments in Ukraine and Romania using a sample of 28 companies within the financial sector. In drafting this paper, we have focused on the existence of the internal audit department and on seven roles and responsibilities of the internal auditor.

Although in the specialized literature we can find numerous articles about internal audit, this study is different from the others by the characteristics analysed and it represents an important contribution to the literature regarding Romania and Ukraine.

According to Petrascu [1] “the audit is a process, a set of operations, collection, analysis and evaluation of information (audit trail) to obtain reasonable assurance on compliance of such information or statements with predetermined criteria.”

The Ukrainian economy is marked by crisis, political instability and other negative phenomena. Romania’s situation is improving, but it is not yet an ideal one and in such unstable conditions, establishing and implementing standards and practices for the good functioning of organizations is essential.

Internal audit has two main roles [2] [3]:

- a protector role: they protect the audit committee members and the managers against potential obstacles and risks;
- a helper role: they have a leading role and provide support for the achievement of the companies' goals.

In other words, the internal audit function contributes to the success of the company with recommendations concerning the internal control system and the risks associated with the auditable activities. According to Lucan and Hlaciuc [4] we can consider the internal audit as “the last line of defence against inappropriate corporate governance practices and financial reporting”.

The findings show a common interest in the activity of monitoring the risk management system but, on the other hand, for both Romania and Ukraine the internal audit department does not control the effectiveness of all operations within the entity. Ukraine gives more attention to the legislation and the internal rules applicable to the entities, but Romania presents a greater interest in the other activities analysed.

The paper is structured as follows. Section 2 provides a review of the literature about internal audit and section 3 presents the sample and the research methodology. Section 4 discusses the results and the last section provides the conclusions and some recommendations.

2. Literature Review

The literature on internal audit is very wide and this topic has been approached from various perspectives.

As regards the Romanian specialized literature, in the paper about the evolution of internal auditing in Romania, Bota-Avram and Popa [5] state that at the beginning “internal auditing faced some difficulties, being seen as a consumer of resources, but management have become increasingly aware of the added value that it can provide for their organizations, particularly under the difficult conditions that the entire world economy is currently facing.” Tak, Morariu and Guney [6] used data from auditors and employees from audit companies and found that:

- for the majority of the questioned auditors the role of internal control raises the credibility of accounting and financial information and improves the audit process;
- in companies auditors shall report the significant problems of internal control to those in charge of the governance and to the audit committees;
- the objectives of internal control are properly understood by the auditors.

Vlad [7] investigated corporate governance and internal audit in Romanian credit institutions and found that for credit institutions, the internal audit function must guarantee the existence of corporative governance, control systems and risk management processes, and help management to identify and process risk situations present in a bank.

Feleaga et. al. [8] investigated the implementation of the principles of corporate governance concerning the formation and functionality of audit committees in Romania

and found that state-controlled companies have a lower degree of alignment with these recommendations and, while for private entities the degree is higher. Another study about the alignment with the corporate governance code and the implementation of the internal audit function within a company is the one conducted by Rogoz and Stoica [9] analysing the comply or explain statements published by the Romanian companies listed on the Bucharest Stock Exchange and discovered that there is a positive evolution for Romanian companies in the implementation of the internal audit department.

In the case of Ukraine, we also have some interesting articles regarding internal audit. The study carried out by Momot et al. [10] on internal auditing in the public sector of Ukraine shows that the internal auditing function, with relevant internal audit reporting, enables the improvement of risk management and public governance processes by facilitating managers' efforts to enhance their risk management processes. Monitoring the quality of the audit is an important issue worldwide and the implementation of auditing standards is essential. In Ukraine it is advisable to pay attention to the improvement of audit services because of the corruption, lack of professionalism and lack of communication between internal and external auditors [11]. Slobodianyuk and Halas [12] analysed the effectiveness of the implementation of the internal state audit function in Ukraine and found that the State audit service of Ukraine continues to record financial irregularities. The main reasons for this are: low salaries of employees of internal audit units; the violation of the independence principle and the lack of accessible training and advanced training.

Kuzub and Ilchenko [13], in their article "Risk-oriented internal audit system of agricultural enterprises" concluded that the main functions of internal audit are: control, protection, analysis, coordination, information and consultation, and that the concept of internal audit can be interpreted in different ways, while internal audit theory is not complete and is constantly changing. For the purpose of improving the management function, Petrov and Sembiyeva [14] developed a technique that can help internal auditors in determining the degree of compliance with the accounting standards and reporting rules of settlements in corporate systems with an unlimited number of control items.

Taking into consideration that the internal audit is not yet very developed and regulated, we expect a better implementation of internal audit in Romanian companies, so the following hypothesis is formulated:

Hypothesis 1: The majority of the Ukrainian and Romanian companies analysed have an internal audit department.

Hypothesis 2: In Romanian companies the level of involvement and the effectiveness of the internal audit departments is higher than in Ukrainian firms.

3. Sample and Research methodology

This study uses the following general methods of research: structural and logical analysis and synthesis, comparative analysis and scientific abstraction. The sample is present-

ed in table 1 – Selected Romanian and Ukrainian companies, and consists of 28 financial firms from Romania and Ukraine including insurance and banking/credit services.

Table 1

Selected Romanian and Ukrainian companies	
Romania	Ukraine
Banca Transilvania S.A.	Alfa-Bank
BRD - Groupe Société Générale S.A.	Altbank
Banca Comercială Română	Bank Avangard
SSIF Broker S.A.	Bank Pivdennyi
Evergent Investments S.A.	Bank Vostok
Alpha Bank Romania	BTA Bank Ukraine
SSIF BRK Financial Group S.A.	Commercial Bank Globus
Erste Group Bank AG	Dragon Capital Ukraine
UniCredit Bank S.A. România	First Ukrainian International Bank
Imocredit IFN SA	KredoBank
Patria Bank	Megabank
Idea Bank S.A.	Oschadbank
Transilvania Broker de Asigurare	Sokrat
Raiffeisen Bank Romania	Ukrgasbank

Source: own representation

The data was collected from the companies' websites and reports, from the Bucharest Stock Exchange and the Ukrainian Exchange websites.

This paper analyses the internal audit function considering the existence of the internal audit department within the companies and its roles and responsibilities as presented in table 2 – Roles and responsibilities of internal audit. We followed the previous literature [15] for the selection of the roles and responsibilities of internal audit.

Table 2

Roles and responsibilities of internal audit

Internal audit roles and responsibilities
IA assists the management and the board/supervisory board in improving the control and risk evaluation process;
IA provides reasonable assurance of compliance with an applicable legal framework, internal rules and procedures applicable to that entity;
IA carries out an assessment of the effectiveness of all operations within the entity;
IA verifies financial and accounting reporting;

IA monitors the compliance of the entity with the corporate governance code applicable to that entity;

IA monitors the risk management system, together with the risk management department;

IA carries out ad hoc internal audit missions taking into account current risks and potential risks identified;

Source: own representation

4. Results

4.1. Analysis of the internal audit function considering the existence of the internal audit department

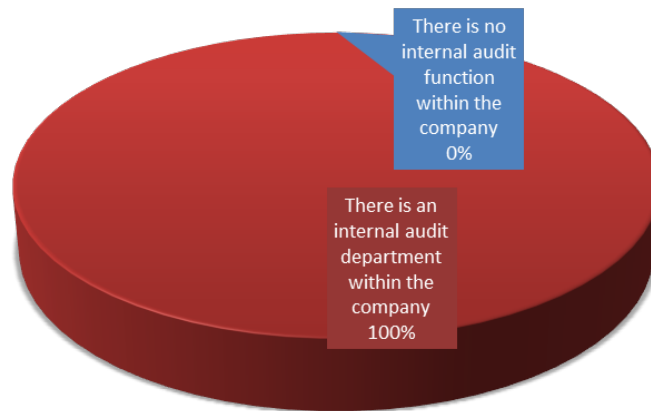


Figure 1 - The existence of the internal audit department in Romanian companies

Source: own calculations

As it can be seen in the chart, in Romania all the companies in the sample have an internal audit department. The recommendations on good corporate governance practices in Romania highlight the significance of the internal audit department in listed entities, as it has detailed knowledge of the organizational culture and all procedures used in companies.

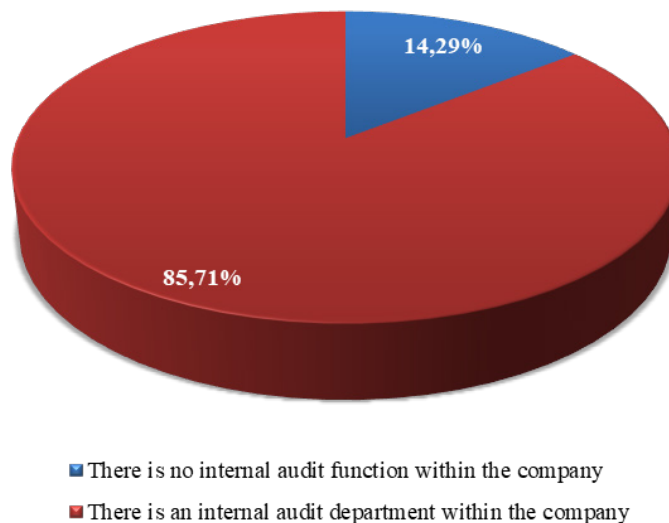


Figure 2 - The existence of an internal audit department in Ukrainian companies

Source: own calculations

Concerning the existence of an internal audit department in Ukrainian companies, it is noticeable that the majority of the firms analysed chose to introduce this function. This result is good but we must also consider the fact that banks are obliged to have an internal audit department. However, the companies operating in the financial sector that are not banks did not implement this function.

The existence of the internal audit function in companies is very important for both countries because by auditing the different departments of an organization, internal auditors can provide an overview in order to choose and implement the best development strategy. Taking those considerations into account, hypothesis 1 is confirmed.

4.2. Analysis of the internal audit function considering the roles and responsibilities of the internal audit department

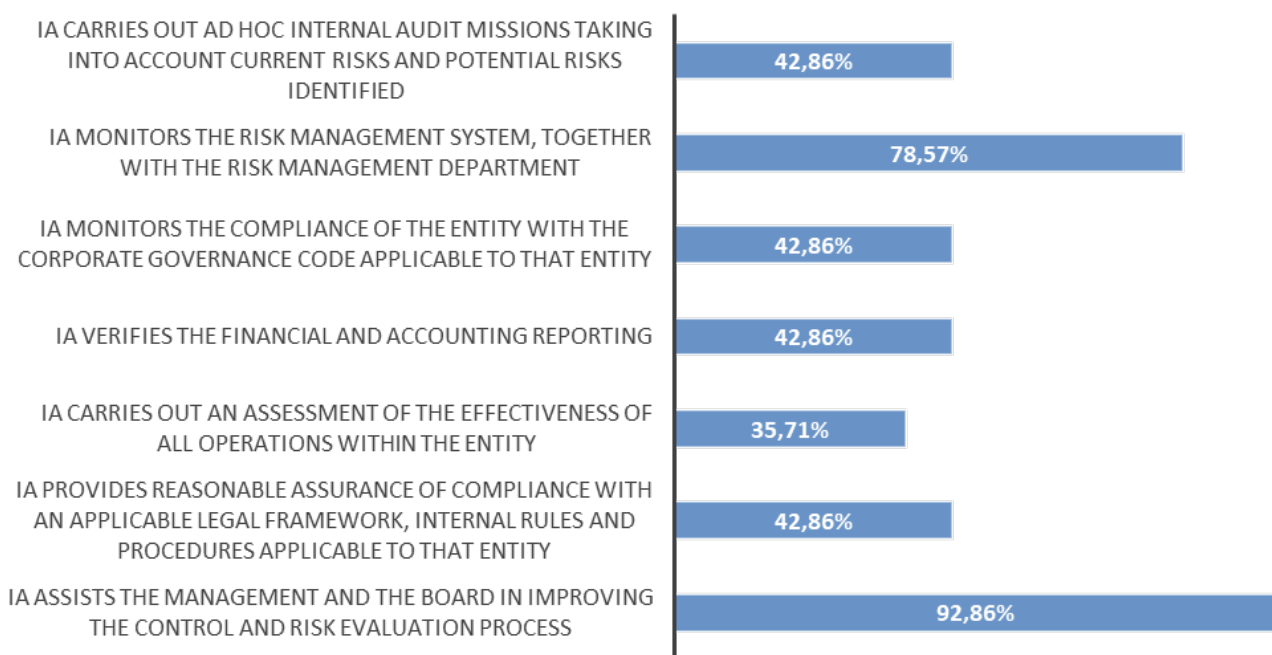


Figure 3 - The roles and responsibilities of the internal audit department in Romania

Source: own calculations

By analysing the roles and responsibilities of the internal audit department in Romania a major importance can be seen in the activities of assisting the management and the board in improving the control and risk evaluation process and monitoring the risk management system, together with the risk management department. These activities guarantee an optimal exchange of information regarding the activities within the firms. For these criteria, an increasing trend toward harmonization with the Romanian corporate governance code which recommends internal auditors' assistance in the implementation of the risk management framework to ensure more efficiency and transparency is observed.

As regards the other activities of the internal audit department, Romanian companies exhibit a medium level of interest, with the exception of the activities related to the evaluation of the effectiveness of all operations within an entity that has a low level of application. Overall, we can say that the Romanian entities can provide moderate reliability for potential investors and other interested parties.

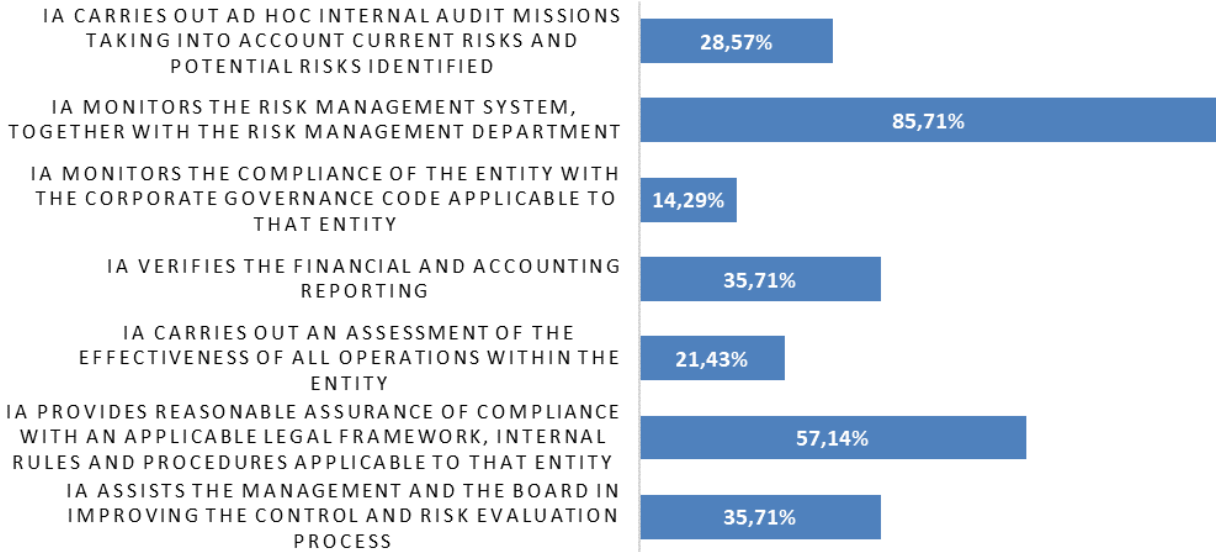


Figure 4 - The roles and responsibilities of the internal audit department in Ukraine

Source: own calculations

Based on the results of the internal audit activities in Ukraine, we notice an increased interest in monitoring the risk management system, together with the risk management department and in providing reasonable assurance of compliance with the current applicable legislation and internal procedures. These aspects represent an advantage for the entities studied in terms of growth prospects and future development. According to the Ukrainian good corporate governance practices, imposing the application of generally accepted legislation and internal audit standards has and plays a significant role in ensuring the integrity and correctness of the internal audit procedures.

The preoccupation for verifying the financial and accounting reporting and for assisting the management and the board in improving the control and risk evaluation process stands at a medium level. Although these roles require improvement, one benefit from the attention granted to these roles is the increase in the level of confidence in control processes within Ukrainian companies.

In Ukrainian companies the internal audit function does not pay enough attention to the compliance with the corporate governance code and to the review of the effectiveness of all operations within the entity and does not conduct ad-hoc internal audit missions taking into account current and potential risks. The reduced involvement in

these activities is considered a weak point because a precarious control of entities' activities and a mismanagement of risks lead to a decrease in trust among stakeholders in the company's business.

The comparison of the results obtained for the two countries shows a common interest in the activity of monitoring the risk management system but, on the other hand, for both Romania and Ukraine there is a lack of control of the effectiveness of all operations within the entity by the internal audit department. Ukraine gives more attention to the legal framework and the internal rules and procedures applicable to the entities, but Romania presents a slightly greater degree of interest in other roles analysed. Although the situations in both countries require improvement, Romania shows better alignment with the good practices of corporate governance, a result which confirms the second hypothesis that states that in Romanian companies the level of involvement and the effectiveness of the internal audit departments is higher than in Ukrainian firms.

5. Conclusions and recommendations

This study investigates the internal audit function in Romania and in Ukraine. The analysis present in this work has been carried out by reviewing the previous specialised literature and by the development of the empirical part which has as its main objective the assessment of the contribution to the company of internal audit, taking into account different roles and responsibilities of the internal auditor.

The results show a significant percentage (in the case of Romania 100% and 85,71% in Ukraine) for the existence of internal audit department for both countries and an increased interest in the activity of monitoring the risk management system. As a weak point, in both countries there is lack of control of all operations within the entity by the internal audit department. In Ukraine there is growing concern about the compliance with the legal framework and the internal rules of the companies, while Romania presents a slightly greater degree of interest in the other activities analysed.

Both countries presented major interest in the discovery of convergent elements in internal audit practices. Following this study, we have drawn both positive and unfavourable conclusions. The findings show a progress-oriented line for both Romanian and Ukrainian companies. We recommend that both countries improve the governance systems within the companies and the internal audit function through activities such as organizing ad-hoc internal audit missions, taking into account current and potential risks and monitoring the compliance of the entity with the corporate governance code.

This study is useful for both academics and organizations because it provides a relevant contribution to the literature and it can be used as a starting point to improve companies' control system. The outcomes of this research could also serve as a reference point for future research that analyses a larger number of internal audit practices for other countries and considers more enterprises within various fields of activity. In conducting this study, we have faced the limited situation of publicly available information.

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