



Financial Auditors' Perception on the Added Value of Internal Audit Services

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Abstract

In the current business environment, which has radically changed due to either socio-economic turmoil caused by economic or health crises (such as the COVID-19 pandemic) or due to technology and digitalization, internal audit has gained an important role within companies. Thus, in the last seventy years, internal audit has developed and evolved from being the function that controls accounting and financial data, to becoming the strategic function that improves governance processes for shareholders and management. The internal auditor helps an organization to meet its goals by providing a systematic and disciplined approach for assessing and improving the effectiveness of risk management and governance processes. Only an effective internal audit can achieve its tasks properly. Efficiency depends on the subordination level of the internal audit function (this needs to be adequate for the internal audit to be independent and objective). Efficiency also depends on the professional qualification and practical experience of internal audit staff, on the engagement's strategy, as well as on activities and added value for the company, and on its continuous improvement capacity. This research aims to analyse the perception of professional practitioners within Romanian professional bodies, both from the perspective of internal auditors who do this service based on audit engagements performed at company level, but also from the perspective of employees working in these companies' internal audit departments. The main goal is to create and shape a holistic framework to be used for assessing the added value of internal audit based on stakeholders' perceptions.

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The main results obtained highlight the fundamental role of the quality of human capital and of corporate governance at company level. Management will take responsibility for implementing the auditor's recommendations only based on an effective communication and reporting of audit observations. At the same time, the internal auditor's integrity, independence, objectivity, and competencies represent the foundation of an internal audit function that has all the prerequisites for gaining management's trust, support, and cooperation. Finally, the results of this research show the importance of the organizational context in which the audit function is organised. According to the worldwide well-established "three-line defence" model, the audit function is the last line of defence against fraud or non-compliance, thus ensuring the preservation of the company's resources.

Key words: internal audit; added value; efficiency of internal audit services; performance; COVID-19; digitalization; technological innovation;

JEL Classification: M21, M40, M41, M42

1. Introduction

The current sensitive socio-economic environment driven especially by the COVID-19 pandemic and digitalization is creating an uncertain context for both private and public organizations.

Being an independent and mandatory activity, and a value-adding strategic function, internal audit provides assurance on the verification level of operations carried out by that company, and makes recommendations for their improvement, thus contributing to the creation of added value.

This research aims to identify those circumstances where literature has not yet managed to set a clear connection between the activities of internal auditors and the company's performance. Thus, to assess the effectiveness of the internal audit function, our research shows the areas and segments that can add value, but also the factors allowing this.

To achieve our goals, we aimed to interview financial auditors and practitioners to assess their perception, not only from the perspective of the internal auditor performing this service based on audit engagements at company level, but also from the perspective of employees in the company's internal audit department. Our intention was to

be able to shape a holistic framework to be used for assessing the value added by the internal audit function based on stakeholders' perspectives.

Thus, considering the perception of internal auditors who are members of the Romanian Association of Internal Auditors (A.A.I.R.), and of financial auditors who are members of the Romanian Chamber of Financial Auditors (C.A.F.R.), our research aims at three objectives:

- OB1: to analyse the connection between the allocation of audit resources and the potential of the internal audit function to generate added value
- OB2: to analyse the impact of the qualities of the internal auditor on promoting the internal audit function, from the perspective of the internal audit function's potential to generate added value
- OB3: the impact of technological innovation on the allocation of audit resources.

The research is structured on five sections. Thus, the first section highlights the preliminary aspects of the undertaken scientific approach, respectively the context of the study case. The second section is an analysis of the specialised literature. The next two sections describe the research methodology, respectively the results obtained and a discussion around them. Finally, the fifth section draws the conclusions of the case study.

2. Literature review

In periods of socio-economic turmoil, such as the current one caused by the COVID-19 pandemic (Deliu, 2020; Farcane *et al.*, 2021), as well as due to disruptive changes in daily activities caused by digitalization and emerging technologies (Farcane & Deliu, 2020; Tiron-Tudor *et al.*, 2021; Tiron-Tudor & Deliu, 2021), more than ever, managers need quick access to information on which they can rely in their decision-making process. Thus, in a business environment that is changing faster than ever, and automation solutions are adopted rapidly in more and more areas, internal auditors play an increasingly important role (Deloitte, 2018c; Ernst & Young, 2020; KPMG, 2020b; Kahyaoglu & Aksoy, 2021; Mervelito *et al.*, 2021). In this respect, considering the major uncertainties caused by the assault of disruptive forces, the internal audit function needs to evolve for helping companies to understand and manage associated risks (Kahyaoglu & Aksoy, 2021), to achieve the expected results further to automation (Mervelito *et al.*, 2021), but also to continue to