

Motto: *No internal audit without internal control,
No internal control without working procedures
No working procedures without risk register*
The author

THE CONSULTANCY OR COUNSELING ASSURED BY INTERNAL AUDIT

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Abstract: *Internal audit activity has two components, respectively consultancy activity for management and the assurance activity for the functionality of internal control system within the entity.*

Taking into consideration the fact that the consultancy activity was not developed within the normative framework that regulates internal audit, it was organized and regulated, subsequently, by the Order of ministry of public finances no. 1.702/2006, for modifying and completing the Order of ministry of public finances no. 946/2005.

The article presents the concepts behind consultancy/counseling and assurance, the types of consultancy and the consultancy missions' type. Also, in the material' second part there are being presented the resemblances and the differences between the two activities and, also, their complementary features in the internal auditor's practice.

Assurance activity and consultancy activity are fundamental components for internal audit. There are preoccupations in distinguishing the future for these components within internal audit working tasks. Also, we must identify the connections between these two and ways of coexistence and, at the same time, ways to concur to the enrichment of internal audit services.

For these reasons, it is imposed a distinction between the activities we fulfill under the name of “assurance” and the activities we fulfill under the name of “consultancy/counseling”.

For establishing the length and coalescence of these two internal audit components we must access more objectives:

- defining and describing assurance and consultancy services;
- the basis on which audit is built on in order to have the authority to fulfill assurance and consultancy services;
- identifying different types of assurance and consultancy services;
- comparing and contrasting objectives for the assurance and consultancy services;

Assurance¹ represents: an objective examination of evidence for the purpose of offering an independent evaluation over risk management, control and governance processes.

In practice, there is a wide range of assurance services fulfilled by internal auditors covering a wide range of activities, almost all activities, from which we give some examples:

- the audit of control process over the budget's execution;
- the audit seeking accordance and adequacy in an organization's personnel policies;
- the verification for the implementation of a certain policy in IT system;
- preliminary financial analysis and legal accordance for a new method of implementation;

¹ Glossary “International Standards for the Professional Practice of Internal Audit”, Annex 1.3., page 38.

- the measurement for an activity's efficiency.

Consultancy or **counseling** represent those activities that are tied to the nature and purpose of the organization and are meant to create value and to improve its governance, risk management and control processes without needing for an internal auditor to assume managerial responsibility.

Next, we present the shapes which consultancy activity can take:

a) **consultancy**, having, as purpose, the identification of any impediments for a normal operation of processes, establishing the causes, determine the consequences, presenting, furthermore, solutions for their elimination;

b) **facilitating acknowledgement**, designed for obtaining supplementary information for a total knowledge about the function of a standard system or of a normative provision, necessary to the personnel that has, as responsibility, their implementation;

c) **professional improvement and formation**, designed to make available all the theoretical and practical knowledge concerning financial management, risk administration and internal control, through courses and classes.

Counseling activity it is organized and unfolds through more types of tasks:

- *formalized counseling missions*, comprised within a certain section of the annual internal audit plan, missions that are carried out through systematic and methodic approaches in accordance with pre-established procedures with a formalized character; for example: *the completion of a mission regarding management's performance*.

- *counseling missions without a formalized character, informal*, realized through the participation within different permanent committees or projects with certain duration, at punctual reunions, current information alternation, operated through specified procedures; for example, *the development of a telephonic help-line to answer questions concerning internal controls*.

- *counseling missions for exceptional situations*, realized through the participation of a formal team, having as purpose to continue an activity after a major force situation or other exceptional situations, being fulfilled according to certain procedures.

- *facilitating*: the conduct of a workshop (discussion class) for auto evaluating controls, for managers, with the purpose of identifying risks specific to their domain of responsibility.

- *professional training*: presenting to the new employees all the important processes of an organization or of an important normative act from the internal control and audit domain.

From the counseling activities forms, first is formalized, the others are informal and can be a part from the annual planned activities, in a common way, but some can be fulfilled following a management's request.

We present, in the table below, some activities or public entities' domains that can be audited and the way in which they are being divided in assurance activity and counseling activity which internal audit can offer:

Nr. Crt.	Activity	Assurance	Consultancy/ counseling	Observations
1.	Designing the process' architecture		X	
2.	Securing the IT system	X		
3.	Facilitating the comprehension regarding a normative act		X	
4.	Acquisitions activities	X		
5.	Personnel's professional training		X	
6.	Accordance with the normative framework	X		
7.	Governance activity	X	X	For this activity it

				can be elaborated an audit mission regarding the performance
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Analyzing the table above we notice a certain difficulty in situating auditable activities in assurance or counseling activities, fact that demonstrates the complex character of many of them.

The main criteria that have to be beard in mind when we plan consultancy activities/engagements are:

- to create value for the organization, for example, through the identification of cost reduction possibilities;
- to be compatible with the organization's internal audit tasks, in accordance with internal audit charter;
- to be complementary or to be added to organization's general assurance;
- to be contributory at the internal audit's understanding of an organization;
- to be underlined through clear base rules, understood by all the members of an organization;
- not to deny the right of a internal audit compartment's head which consists in reporting consultancy activities' results when major risks have been identified by the upper management or internal audit committee;
- to be guided under the principle that the internal auditor is, before anything else, a professional person and, as such, he has to be guided by the Ethics Code and by the Standards for Professional Practice of Internal Audit, internationally recognized.

For a better understanding of assurance and consultancy activities we present the table below:

Nr. Crt.	Questions	Yes	No	Observations
1.	Assurance and consultancy activities are two activities that exclude one another?		X	
2.	Assurance can be obtained from consultancy engagements?		X	
3.	Decisions regarding the adoption or implementation of recommendations made after the completion of a consultancy activity has to be taken by the management?	X		
4.	Information concerning majors risks identified by an organization after a consultancy activity can be shared with the internal audit committee?	X		Also, to the superior management
5.	Official consultancy engagements have to be fulfilled be an external consultant?		X	

When they establish their annual internal audit plan, internal audit structures can plan 1-2 consultancy missions during a year if these missions don't affect the auditors' independence and/or objectivity.

In the situation in which management requires more consultancy missions, other than the ones established in the annual plan, the head of internal audit department analyzes these requirements and establishes if he can answer them, eventually through the attachment of a supplementary objective for the annual planned missions or, if the situation imposes, a new consultancy mission.

At the same time, having analyzed the management's application, the head of the internal audit compartment has to respect the independence and objectivity of internal auditors.

If the head of the internal audit compartment establishes that he can fulfill this mission, he will have to draw up a justification paper, during the last quarter of the year, and to update the approved internal audit plan for the respective year. This task will presume the deletion of a mission, for the fulfillment of the required consultancy mission applied for by the management and the shift, in the next year's audit plan, of the respective mission or, even the agglomeration of one or multiple mission in order to realize a system audit.

In practice, internal auditors have to limit to the necessary when it comes to consultancy activity or to avoid the fulfillment of an assurance mission in the areas where there have been fulfilled consultancy missions.

Managers are interested in involving internal auditors in different activities with a captiousness character, to "get their touch", but, internal auditors have to, with adroitness, to detach themselves from such mission in order to preserve their independence. Such missions can be: participating in auction committees, to be an observer in mixed teams for different projects, effectuate certain researches etc.

Regularly, when internal audit compartments are made from 1-2 auditors, they can refuse these types of mission, required by management, on the grounds of maintaining their objectivity and independence.

The most frequent domains in which internal audit can fulfill consultancy activities are:

- internal procedures and rules;
- risk management;
- corporate governance;
- benchmarking;

- consists in assigning external criteria for professional level, performance criteria;
- it is realized as an external evaluation through the agglomeration of different components of the same organization or of different ones, when they exist. The purpose of such a comparison consists in identifying and implementing performance elements through the establishment, with precision, of areas where changes are necessary;

- has, as objective, the improvement of the evaluated field.

In practice there are different ways through which management can acquire the necessary information, starting from formal presentation until the participation in mixed teams or informal consultancy missions.

Regularly, we notice, that the target group for these risk scenarios and control is the superior management, situation that offers a valuable opportunity for internal audit to solidify the internal audit-management relationship.

In U.S.A., following the financial scandals like WorldCom and Enron, over 200.000 laborers were unemployed, and the consultancy company Arthur Andersen vanished from the market in the following two months. The American congress constrained the internal audit firms to fulfill, for their customers, assurance missions or consultancy mission in order to increase the internal auditors' independence and to preserve their objectivity.