MANAGEMENT OF AN AUDIT ORGANIZATION AND AUDIT OF MANAGEMENT

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ABSTRACT
The paper presents various aspects of the management of audit organizations and the audit of the management within an organization.
Based on a comparative study, the paper analyzes specific elements of the management of audit organizations and the performance auditing of the management teams of organizations audited.
Through review of management and audit literature, the paper explains the differences between management of an audit and audit of the management of an organization.

KEYWORDS: *organization management, management audit, performance, management team, economic crisis*

JEL CLASSIFICATION: *L20, M42*

1. INTRODUCTION

This paper aims to examine some of the similarities and differences in theoretical and practical approaches related to management of audit organizations, audit management, management of the audit team and performance management.
The work takes into account the fact that existing organizations put more emphasis on dematerialized flows specific to incorporation of increased amounts of knowledge and progress in real time. These flows are characterized mainly by concepts such as creation, transparency, communication and so on, resulting in the proliferation of virtual organization forms in the economy. This is in marked contrast with the predominance of the flow of materials, specific to the industrial era.
Under these conditions, the management teams must adapt to turbulent developments in a quicker than ever response time. This challenge comes at a time when the work done by the organization in the interest of investors is increasing in importance. Managers have increasing duties in relation to understanding and risk monitoring of all activities. Specifically, for the function of control-evaluation of management, new connotations specific to the current period of development of human society appear, when - on the planet - the world is surprised by new issues of business ethics and moral citizenship.
After a detailed comparative study of literature on management and audit, related to the theoretical and practical experience of the authors in the specified fields, some relevant conclusions are drawn about the issues raised.

2. COMPARATIVE STUDY OF THE SPECIALIST LITERATURE

The literature on the scientific management of an organization begins with the work The Principles of Scientific Management, published in 1911 by F.W. Taylor, one of the founders of the science of

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management. Numerous papers have addressed this issue, especially in the last three decades, including in Romania (Burduş, 2005; Nicolescu & Verboncu, 2007), many of them focusing on theoretical and methodological elements of management.

According to some authors, the audit has evolved both as a scientific discipline and as a practice. From this point of view, "the conceptualization of management audit has its origins in Great Britain where, in 1932, TG Rose published his pioneering work in the field, The Management Audit. For a long time after, no notable step was undertaken that would lead to conceptual enrichment of the audit management issues."(Nicolescu & Zecheru, 2003)

Certainly, the reference point is to consider the traditional audit, that is oriented exclusively to accounting. The focus is only on accounting compliance. The findings of financial auditors relate to the quality of the bookkeeping process and the management of public funds.

In the past quarter century, the pressure has shifted intensely from auditing resources management to the managerial aspects, i.e. the evaluation of the quantitative dimension, mainly economic, to investigate the qualitative dimensions of organizational processes. Asked to respond to ever more complex questions, the audit report could not be based solely on financial and accounting information. Becoming more frequent, audits are requested to evaluate and ensure the quality of management - in general - and its decisions, in particular.

Processes of globalization, accompanied by attempts to deregulate the economy at local and - especially - global level, have changed the content and purpose of accounting, by increasing substantially the responsibility of both financial audit and fiscal audit.

Currently, especially at the managerial level, financial services users (Rusovici, Farmache & Rusu, 2008), have increased demands that focus on quality, total quality accounting, the financial statements audit, internal audit, evaluation, consultancy on the organization and functioning of companies, banking and financial activities, exchanges, insurance etc..

The responsibility of management of audit organizations (especially financial) is enormous. Planning, implementation and completion of audits must be done according to international regulations and standards and by respecting the codes and rules of professional ethics.

The interest in judging management by results has increased, leading to a growing tendency to validate performance management as the main factor that directs the organization’s performance. More and more experts agree that the smooth running of the organization's activities and its financial results depend significantly on the quality of management. In this sense, the trend today is to find specific instruments that constitute evaluation of managerial performance. To achieve this, efforts are being made to establish generally applicable principles, requirements, professional standards and rules for methodological procedures. Various approaches have been attempted for this purpose that has proposed audit process definition and management of its system of methodological procedures.

According to management specialists (Nicolescu, 2011), in the recent management Dictionary audit is defined as "specialized approach for examining running processes, actions, in certain areas to determine the extent to which they comply with certain principles, requirements , rules streamlining key decisions, actions and behaviors involved. The main ideas for audit types are: management audit, environmental audit, etc. together with join venture. Audit is not equivalent in concept and activity with internal audit, financial audit, inspection, verification, etc. Usually audit certifies compliance and auditors recommendations are not binding. "

When referring to financial audit, by contrast, things are very clear to experts in the field, leaving differentiated interpretations to those outside the field, sometimes even the shareholders and / or managers of companies audited.

3. MANAGEMENT OF AN AUDIT ORGANIZATION

If we refer only to the management of audit companies, we can say that it does not involve essential differences to managing an organization in general. We find in audit firms elements of management

subsystems, as they are stated by management science and management practice, some of them with particular features given by the activity of these organizations.
Given the relative seasonality of (financial) audit activities, most firms in the industry also conduct financial advisory, taxation services etc.. Financial audit activity is intense in the first two quarters of the year and possibly in the last quarter of the year.
Further you can find details with regards to aspects of the organizational structure of an entity that provides consulting services (i.e. audit companies are considered to provide consulting services). (CISA 2011)
A *consulting firm* is a hybrid organization (Diagram 1). Internal clerical and support functions are similar to those in a typical business. The consulting side of the firm uses functional management positions. The staff is allocated according to temporary project assignments. At the end of each engagement, the staff will be reallocated by either returning to the available resource pool or by becoming unemployed until the next engagement.
Managing Partner A managing partner refers to a C-level executive in the consulting practice. This could be a position equal to a corporate president. Managing partners have the responsibility and authority to oversee the business divisions. Various partners in the firm will report to the managing partner.
Partner A partner is equivalent to a divisional president or vice president and is responsible for generating revenue. Their role is to represent the organization and provide leadership to maximize income in their market segment. Partners are required to maintain leadership roles in professional organizations and to network for executive clients. Most partners have made financial commitments to produce at least $15 million in annual revenue along with supporting other business management functions. The partner and all lower managers are responsible for professional development of the staff.
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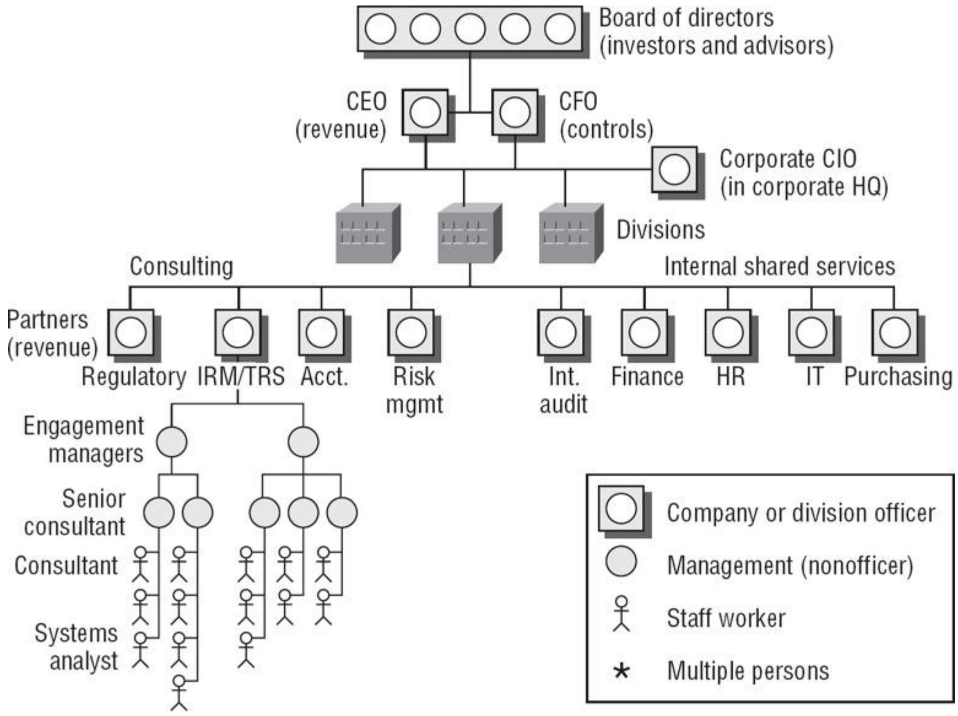

Diagram 1: **A typical auditing firm organizational chart**
Source: CISA, 2011

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Engagement Manager This is a director-equivalent position with the responsibility of managing the client relationship. The engagement manager is in charge of the audit's overall execution and the audit staff. The engagement manager is responsible for facilitating the generation of new income opportunities from the client.
Senior Consultant This is a field manager whose responsibilities include leading the daily onsite audit activities, interacting with the client staff, making expert observations, and managing staff assigned to the audit.
Consultant This is a lead position carrying the responsibility of interacting with the client and fulfilling the audit objectives without requiring constant supervision. A consultant is often promoted by demonstrating an ability to fulfill the job of senior consultant or supporting manager.
Systems Analyst This is usually an entry-level position. Often the individual is selected for their ambition and educational background and may be fresh out of college. Systems analysts perform some lower-level administrative tasks as they build experience.

4. AUDIT OF MANAGEMENT

Theorists and specialists in organizational management (Nicolescu & Zecheru, 2003) consider that there are three levels that management audit can address, depending on the structuring of the organization and its components.
First we refer to the possibility of certification or attestation through an audit of the entire management system or components and therefore of one of its subsystems: decision, informational, organizational, methodological and human resource management. Secondly, we consider the whole process of management of the organization or specific activities management functions: forecasting, organization, coordination, training or assessing control. The third tier in question may be those of functions or business areas of the organization: research and development, the operational (especially the work) commercial function (or specific activities relationships with the environment), financial accounting, human resources.
The audit approach will take account management and total quality management requirements derived from customer orientation, as stated by Oprean, C., Titu, M. & Bucur, V. (2011). This involves a process-based approach that includes:

- Defining the processes involved in getting the desired result;
- Specifying and evaluating inputs and outputs related;
- Anticipating likely risks and their consequences on their customers, suppliers and other stakeholders;
- Establishing clear management responsibilities etc.

Three basic evaluation methods exist for any work activity: inspection, compliance auditing and management auditing.
Inspection is defined as an organized examination or formal evaluation exercise. In engineering activities inspection involves the measurements, tests, applied to certain characteristics in regard to an object or activity. The results are usually compared to specified requirements and standards for determining whether the item or activity is in line with these targets and it is always binary: pass or fail.

Compliance auditing verifies the implementation of written manuals, procedures and work instruction. It is used in high-risk activities, where there is a desire to verify that the activities are being performed in strict compliance to approved requirements. The application of a compliance audit results in stability and assurance that rules are being followed.

Management auditing. A more recent concept. It focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures and methods. Generally performed internally, management audits are compliance audits plus cause-and-effect analysis. They are potentially the most useful of the evaluation methods, because they result in change.

A set of indicators have always been looked for that reflect as closely as possible the functioning of organizational entities (public or company) or making demands of programs or activities of government departments. In this sense the question arises: which indicator or set of indicators can realistically assess performance?

Performance can be defined as a state of competitiveness of the economic entity, reached by a level of economy, efficiency and effectiveness which ensures sustainable market presence.

Performance measurement should be a systematic process that allows for evaluating the efficiency and effectiveness of an organization or activity. Only by measuring actual performance can information (quantitative and qualitative characteristics) be provided which is useful to managers and customers (in the case of public institutions, or citizens) to assess whether the results are as expected.

Accordingly, the performance measurement process will be represented by a series of sequential actions taken inside or outside the organization, to establish performance standards, evaluate performance and take some corrections, when and where they are required. This process involves defining, selecting and applying a set of indicators to measure the efficiency and effectiveness of an organization's management or its structural components or trial. In a systemic approach, that is based on the process as components: inputs, outputs, actions and results. See the diagram 2, illustrating the interaction of the so-called "3E" (economy, effectiveness and efficiency) after "The International Organization of Supreme Audit Institutions (INTOSAI)."

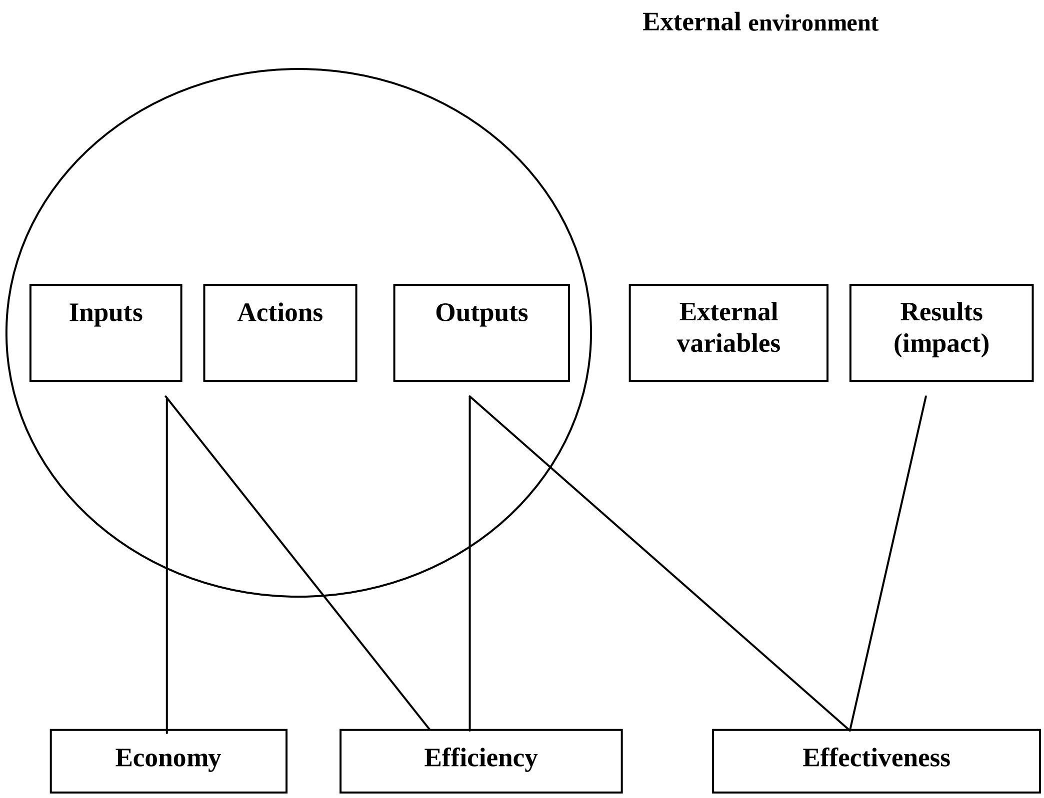

Diagram 2. **Performance components**
Source: adapted from Court of Accounts of Romania (2005, p.11)

As inputs we consider both evidential materials (information, documents, statements etc.) and referential elements (standards, regulations, principles, knowledge etc.). Related actions are: documentation, examinations, evaluations, assessments, etc. Outputs represent the results of input processes, as a consequence of actions taken to achieve specific objectives. The results represent the findings, conclusions and recommendations, all synthesized - most often - in the audit report.
Economy, efficiency and effectiveness are concepts that are included in the model. Economy refers to minimizing the cost of resources, efficiency to maximizing the results and effectiveness to achieving goals.
In other words, **economy** is a measure that provides for minimizing the cost of resources used in an activity without compromising the smooth implementation of its stated objectives (quality).
In the performance analysis, a central issue is whether resources have been allocated, managed and used economically. The question refers to the means chosen, or whether they are the most economical use of resources.
Efficiency is the ratio between results and resources used to produce them.
This can be expressed as the ratio of outputs (goods, services and / or other outputs) and inputs (resources) used to obtain them. To calculate efficiency using the following formula:

Efficiency = Results obtained / Resources used

Generally speaking, if the outcome ratio is equal to or greater than "1", the situation is favorable. An efficient activity maximizes results obtained with the same amount of resources or the resources to minimize expected results. As a result, the expenditures should be considered for achieving maximum results while maintaining appropriate quality.
The question of efficiency, ie answering the question "how can the company get the best result from actions taken in terms of quality and quantity?" This refers to the ratio between the quality and quantity of goods and services, or the cost of resources needed to achieve them.
Effectiveness is the degree to which the stated objectives of an activity and the relationship between the intended impact and the actual impact is achieved.
Effectiveness can be expressed as the ratio between the results for a given activity and results using the following formula: Efficacy = Results obtained / Results scheduled
Effectiveness analysis establishes the extent to which the actions of an entity contributed to the achievement. This can be addressed (Court of Accounts of Romania, 2005) in two ways:

- Narrow, by examining only the entity's management and its internal processes;
- Broadly when the analysis takes into account the impact of external variables.

Effectiveness in achieving a task analysis, entity or government program, you must find answers to the following questions (Court of Accounts of Romania, 2005) such as:

- Management policy objectives are achieved by means, respectively obtained results are scheduled?
- The means used and the results obtained are consistent with the objectives of management?
- Is effectiveness a direct result of program impact management policy and not one due to other circumstances?

As a consequence, the analysis of efficacy determine whether management policy objectives have been achieved and whether the results can be attributed to managerial policies.

5. CONCLUSIONS

Basically, the problem of auditing has become a technical problem - like quality - a management problem. Audit responsibility, regardless of its various types, is and will at all times remain management.
On the one hand we consider its own management responsibility for internal audit (financial, quality, information security and other "so-called" management systems to ISO standards cover).
On the other hand, we refer to the responsibility of managing large companies (not just multinationals), government management (and state administration bodies) of each country or

"blocks" (economic, political, military and so on) and management bodies (Cochin, 2005), international organizations and associations (EU, NATO, UN, etc..) that the interests - the findings of the audit team, the industry - that the activities of entities components or "subordinated" were conducted in accordance with specific regulations. These "management teams" are required modeling of financial and banking systems, insurance and others, which would result in a better economic and social environment in the world.

We note, also, the different approaches regarding the notion of audit, from one category of specialists to another. If for financial audit theorists and practitioners auditing problems are simplified by the existence of specific international standards, for the other types of audit things are completely different due to different interpretations of the specialists.

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