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Auditing, a Necessary Activity within an Entity

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Abstract: *Auditing, if we speak of the internal one, represents an instrument, a sub-function aspect of organizing the firm and of financial-accounting function, based on supporting the entrepreneur, CEOs/managers in order to allow them a better management of the activities. This kind of audit is considered the final level of the internal control system of the entity.*
In this paper, we are focused on the impact of auditing activity on corporative governance, better said, within the managerial microeconomic system.
Corporative governance defines principles, rules, norms, regarding the management of an entity, on behalf of present and potential shareholders, in order to reach the targets. Audit interferes to ensure the control and the well-functioning of the company (firm, entity).
We sustain that, for corporate governance, the auditing committee means an improvement of the quality of financial activity, especially, and performing relations with the business environment (in this case with the external auditors and other entities).
A very important problem to be underlined regarding this sub-function, is that the planning, preparing and ongoing activities within a company (entity) have to be realized more and more based on the evaluation of risks associated to auditing activity and, due to the recommendations made by the auditors to ensure added value.
From the different companies' auditing practice, we consider this domain defining the microeconomic status and indispensable activity for a correct analysis of the managerial functions of an entity.

Keywords: *entity, management function, audit, well-functioning.*

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1. Configuring the complexity of the problem

From the beginning, in order to understand the problem in discussion, synthetically speaking, *Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organisation* (The Economic Times, 2022).

Corporate governance is considered the system by which business corporations/firms are observed and controlled.

One of the consequences of the Enron[1] tragedy was that auditors were forced to take a more active role in governance. The boards of directors are responsible for the internal control of the organization. But, at the same time, the External Audit is also important. External auditing is provided by specialized firms and carried out at the request of the CEO or general management of the organization to be audited.

The use of all Audit forms: Internal Audit, External Audit, Financial Audit, Tax Audit, depends on and can be conducted based on the size and needs of the entity.

A theoretical framework is developed to study the direct influence of the IFAC[2] on the company's performance in terms of the Basel committee's IFAC (2021) principles. Although the focus on internal audit has increased significantly, there is a small number of earlier reviews of the internal auditors' objectivity literature.

A very sensitive problem is that of the necessity of non-separation ownership of the company from management functions, amongst them being that of *control and auditing*. And from theoretical point of view, this separation is inconceivable, affecting the raison d'être of that entity, may causing a lot of conflicts and unpleasantness (Joksimović & Alseddig, 2017).

CEOs/managers need accurate financial data in order to justify their decisions, and this information is provided by accountants. The role of the accounting process is to collect the data and present it under the form of different reports, while the role of the accountants is to help understand and interpret the reports and to suggest how this data should be used in order to solve business problems (Woodruff, 2018).

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[1] The chute of Enron is due to the leadership with fake holdings and off-the-books accounting practices. Combined with the misleading in stock exchange on Wall Street, it has resulted the bankruptcy, on December 2, 2001.

[2] IFAC = International Federation of Accountants, New York.

The phrase "gatekeepers of capitalism" has been used to describe auditors (Leaver et al., 2020) state that the goal of audit quality is to enhance the performance of the client's financial audit so that users of audited financial statements can rely on it (ISAAB, 2021). It is eloquent for the importance of Audit and for application in each and every entity for the well functioning of that entity on a specified market.

It is a complex work for the auditors, as practitioners, because they are called to objectively analyse the information and data received, *but to know how to ask for other data,* indispensable for the correct presentation of the analysed company's financial situation.

The question we have to answer is, however, if Auditing is good or bad for the business, or what is the answer from practice.

At the end of the paper, we'll present an answer to this basic question in the Economics.

2. Methodology

In this paper we used a qualitative research, consisting in the analysis of the practice in this field, accordingly to the International Standards of Accounting and based on the activities of firms/companies.

Also, the expertise of the authors in this specific domain was welcome, taking into account the knowledge of how to conduct a Audit activity, its mission, goals and how to reflect the results in specific acts.

From all this information we synthesize the fact that, in these days, all around the world, the Audit, in its 2 (two) major forms is absolutely necessary, mandatory we may say, for the functioning of entities and their evolution on the open markets.

3. Audit supporting businesses

Some of the basic reasons why it is necessary for the Companies to get their accounts audited (Vishranth, 2019), we highlight below, based on, amongst others, the observations of Vishranth B L, a self-employed and one of the founder partners of Vishranth & Karthik, Chartered Accountants, Bangalore, India:

a. Auditors evaluate the potential losses and weaknesses of the accounting system (using the well-known SWOT analysis) and show the right way to the organization to improve the activity in the future;

b. In the case of External Audit, it's about an independent point of view, helping both investors and the management of the company/firm to see the failures, weaknesses points and to make the right decisions;
c. Auditing activity helps, therefore, to minimize the risks of errors in Accountance and, futrher, to support the the healthy functioning of the firm/company, for new and pprospective business opportunities. We must not forget the fairness of what is written in the books of accounts;
d. Important decisions like the stability of the current business, profit margin expectation and profit maximization can be tackled. Moreover, the auditor can advise on tax planning for the company on a long-term basis and reduction of unscrupulous activities.

But, decisive in any Audit is the Report that is concluded at the end of the auditing action. An audit report is **an appraisal of a business's complete financial status**. It is usually and preferably completed by an independent accounting professional and covers a company's assets and liabilities, presenting the auditor's assessment of the company's financial status.

All aspects are included in the analysis and are presented in this Report, which has to presents fairly the data of the data included. That means the Report, both Internal and External, has to be drawn without pressure from outside or from company's management, with the aim of distorting reality.

In a large number of entities, and we saw cases in our activity and presented by the media, there were attempts, some successful, to distort the data and the financial situation of the company. Failures in audit could lead to a company's bankruptcy, which would result in job losses for staff and significant financial losses for investors.

Why this action? Whether it was about an evaluation of that organization, it does not concern the purpose of the evaluation, whether it is about possible mergers, or even company purchase.

A sole example: Salih & Hla (2016) presented a high and unfavourable correlation between audit failures, corruption and performance in public sector (it's true) in Iraq (that is another country using this management function).

An auditor's role is to collect information and assess the financial status of a company. The time frame can be between a few days to several weeks or even months, depending on the size of the company. The auditor does not have any personal interest regarding the company, and makes sure the company complies with national and international laws. On the one hand, auditors make sure that the company pays all the required taxes and, on the other hand, they also draw their own conclusions regarding the financial health of the company, in terms of Accounting, Finance and Tax.

When the financial assessment is completed, the auditor issues a report regarding his or her findings. The reports are significantly important for both the company and the company's external shareholders. The company will find out if their finances are being managed correctly, and thus can take action in order to fix the problems found by the auditor, while the external shareholders are being provided with important information which helps them understand if their investments in the company are worthwhile (The Reference Staff Writer, 2020).

The importance of Audit, no matter the kind, is that to be implemented all over the world, in order to have a common tool for evaluation, decisive, as we said, in case of mergers, acquisitions, even within holdings.

Not only in European Union, US and other developed countries, but also in contries like India and Sultanate of Oman (especially today, when the Saudi Arabia, Gulf countries are in full process of outstanding progress).

As a result of the observed practices, we can say that *the Auditing activity/function* ***is good***, or mostly good, because:

- The entire value of the business increses;
- It helps to promote corporate governance;
- It ensures a better decision making for the each and every decisional factor.

The answer to the question, hypothesis even, from the begining of the paper, is sound and clea: *yes, the Audit activity is good for businesses and intrinsic to them*.

It is needed a body of professional and impartial auditors, honest and objective, in order to analyze correctly all data and information received regarding the financial situation of that entity.

4. Conclusions

Especially at corporate level, auditing is designed for analyzing and confirming (or not) that the entity is operating according to the law and that the ethical codes and standards are upheld by their practices. Continuing the analysis, the activity of corporate audit has to have regulatory capacity, keeping companies fiscally responsible and profitable and ensuring the transparency (as much as possible) of theirs practices and economic situation.

Therefore, we sustain that Audit must be considered a function of the firm/company management.

The internal & external control implies a very important element, in tight dependency with the others of the entity: **the monitoring and the correction of deficiencies and prevention frauds.**

The entire system of auditing is thought and has to be integrated within the functions of a firm (company, entity) and supports the fifth management function, i.e. that one of control, evaluation and solving the deviations from the programmed goals. The continuing control, but mainly, the feedback from the market and from the action of environmental factors, represents the reason to be of this activity of auditing, through its specific departments and organizational structures. The studies reveal that is a positive and intense relationship between the Audit function/action and the performance of that firm/organization.

We have to understand that auditing and control function is intrinsic of the entity activity and complementary to the complex corporate governance.

The people from these departments, parts of a corporate entity, frequently is moved by the general management from one subsidiary to another, in order to ensure an objective and above inter-human relationships routine in the same entity. It is a capitalistic rule, even hard, but necessary for maintaining the good course of the entity and ethics principles within it.

An important issue regarding internal auditing is that planning, preparation and conducting missions must be carried out based on the analysis and evaluation of risks associated with audited activities and, by the recommendations made by internal auditors (or by decisions of Audit Committees) to add more value.

Furthermore, **the auditing function** ensures and sustains ***the 4 E***s of an entity (including corporate governance and banking system). The *E*fficiency, *E*ffectiveness, *E*conomics mechanisms, *E*thics, all four are responsible to create links with other entities, with clients and an environment of loyalty with the business partners.

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