

THE IMPORTANCE OF THE FINANCIAL AUDIT PERCEPTION IN THE INTERNAL CONTROL STRUCTURE TO PREVENT THE FINANCIAL CRISES: EVIDENCE FROM ROMANIA

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Abstract

Financial crisis in the last decade we came up against did not appear suddenly. We as academicians must look into deeply the causes of the financial crises. Thus, we tried to focus on the internal control and internal audit in the corporate governance for comprehensively understanding the financial crises. Researches show that, there are some signs for preventing the financial crisis but on the basis of the problem lay inadequate financial detection and ignorance of the importance of the internal audit function in the internal control system. Internal audit is one of the important pillars in the corporate governance. Our study aims to analyze the perception of financial auditors, regarding the auditor's understanding of the internal control device, as growth factor of quality financial reporting and to ameliorate the audit process. In this paper we also analyze the importance of the internal audit in the internal control structure using data from 70 auditors of 1178 from all over Romania who are member of Romanian Financial Auditors Chamber. To highlight the research we have focused on the empirical study in Romania.

Key-Words: internal control, internal audit, fraud, financial crisis

1. INTRODUCTION

In the last decade the importance of the internal control and internal audit has increased significantly. This study tries to provide survey evidence of the internal control if it is needed, if it can be prevent frauds and if it can improve the financial report quality. The objective of the financial reporting is defined in the IFRS 2011 booklet as follows: *The objective of financial reporting is to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided* (Bruce, Danie, Tapiwa, & Raymond, 2011). The importance of the accurate financial reporting has been expressed by many academicians and standard setters. In order to prevent any errors or frauds the audit intern plays very important role. As mentioned above to make efficient and effective use of the resources provided the financial reports must give the true picture of the company. Providing the accurate financial reporting companies should take into consideration the role of audit intern.

Accounting scandals (2001 Enron, 2002 WorldCom, Qwest Communications, Adelphia, Global Crossing, Nortel, Parmalat) appeared in the beginning of the 21st Century has complicated the financial world and pulled to the fuzzy atmosphere. After these kind of financial quake, flashes have been busted on the external auditors but the importance of the internal audit has been understood by the academicians that it must not be ignored.

Institute of Internal Auditors (IIA, 2011) defines the internal audit as follows: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. After accounting scandals researches show that, the resources allocated for internal audit and staff for audit functions activity has been increased 10%. Discussions and sharing the information between the audit committee and internal audit department were made so frequently has been increased 25 % compared with the rate before scandals (Atanasiu & A, 2009).

The internal audit function plays a unique role in corporate governance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled (IIA, 2003). Internal audit and the internal control are piece of the corporate governance and in order to continue in the right way they can be considered as the touchstone of the financial system. Needless to say if the internal audit reports are verified and evaluated by the senior management then it makes sense. Otherwise, if the senior managements do not have time to look at reports and disregard the reports it means that the company starts to limp. Based on this statement, this study tries to prove that the internal audit in the internal control structure system is vital for the financial markets. If the

internal control function is accurate it can contribute to the development and prevent any irregularity in the financial reports.

2. LITERATURE REVIEW

The literature on fraud (e.g., AICPA 2007; Beck 1986; Bierstaker et al. 2006; Heier et al. 2005; Hooks et al. 1994; Mautz and Mini 1966; PCAOB 2008; Rae and Subramaniam 2008; Wales 1965; Wells 2008) consistently claims that an effective internal control system (ICS) is the primary means of preventing, detecting, and correcting fraud and errors. Yet, that which constitutes an *effective* ICS is largely conjecture established through *ex post* forensics (a form of induction) performed by practitioners (Barra, 2010).

Recent studies made by the academicians have proved that the good internal audit mechanism may prevent frauds in the financial statements. Management may attempt to use constructed accounting techniques to make the company look good financially by engaging in financial statement fraud. Auditors should have a healthy skepticism when auditing financial statements. Taxonomies of financial statement fraud are also developed to identify common fraud schemes (Rezaee, 2009).

Significant researches on consequences of the weakness internal control has been made by ACFE (Association of Certified Fraud Examiners). This research reveals that the primary factor that allowed fraud to occur. A lack of internal controls, such as segregation of duties, was cited as the biggest deficiency in 38% of the cases. In more than 19% of the cases, internal controls were in place but were overridden by the perpetrator or perpetrators in order to commit and conceal the fraud. Interestingly, even though hotlines are consistently the most effective detective control mechanism, and even though less than half of the victim organizations had a hotline in place at the time of the fraud, a lack of reporting mechanism was the control deficiency least commonly cited by the CFEs who participated in our study (ACFE, 2010).

Prawitt et al. (2009) argues that IAF (Internal Audit Function) can improve reporting quality by mitigating potential weaknesses in incentive system design. Researches demonstrate that the internal control plays key role in any company. Temporary Profitable periods may encourage the top managers but sooner or later they will be able see the importance of the internal control function in the capital market.

Another research made at the national level in Romania by Dumitru Matis and Cristina Bota (2010). In this research authors tried to evaluate the relevant of preparing the internal audit report for assurance of the good corporate governance. One of the questions to respondents was if you consider the internal audit report opportunity and necessary in context ensuring the transparency for good corporate governance. 8,70 % responded; yes preparing the internal audit report can contribute to increasing the transparency. In the other hand 39,13 % responded no.

One of the significant research on internal audit made by Holt and DeZoort in 2006 (Holt & DeZoort, 2006). This empirical study tried to attest that the internal audit report influences the trust of the investors on affiance and the credibility of the financial reports. Investors declare that they trust on credibility of the financial reports of company which prepare the internal audit reports then those which are not prepare the internal audit reports.

Extension of this study focuses on the increase of the governance transparency of the internal audit report for external stakeholders. They evaluate potential IAR disclosure benefits (e.g., increased transparency and accountability) and costs (e.g., increased information load, legal exposure, and reporting costs) using a literature review and the results of 18 semi-structured interviews with analysts, audit committee members, internal auditors, and policymakers. Ultimately, they conclude that an IAR has potential to complement existing governance disclosures, increase stakeholder confidence in governance quality, and motivate internal audit diligence (Holt et al., 2008).

3. ESTABLISHING THE RESEARCH METHODOLOGY

The formulation of hypotheses was followed by the completion of research methodologies. Thus, we used two types of methodologies accepted in accounting researches, namely:

- *The methodology for studying the human behavior*, using interviews, questionnaires, surveys and observation as techniques;
- *The methodology based on market research*, including statistical investigation of debt securities change, logic regression, etc.

In turn, these methodologies can take two forms:

- *Quantitative methodology*, which investigates the quantitative evaluation measures of variables and produces findings through statistical procedures;
- *Qualitative methodology*, which is a type of research that tries to use respondent's reactions using motivational theories.

In our research we chose a quantitative methodology, because we considered that it enables a deeper understanding of human thought and action, by investigating a larger number of subjects.

4. DATA AND RESEARCH RESULTS

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission (DiNapoli, 2007). Financial losses are immense especially in the last decade after financial crises in 1929 in USA. As we live in the global village every financial movement in the world may have an effect on other financial markets all over the world. Preventing any financial uncertainty starts with the reliable and accurate financial reports. Otherwise financial crises will be inevitable in the financial markets and destructive wind of this situation may trigger the financial world all over the world. Our study aims to analyze the perception of financial auditors, regarding the auditor's understanding of the internal control device, as a growth factor of quality financial reporting and to ameliorate the audit process.

In this respect, the hypotheses subjected to test in the empirical research are:

1. Internal control objectives and in particular the accounting and financial are properly understood.
2. The role of internal control and financial credibility of accounting information in improving the audit process is perceived by most of the auditors.
3. Financial auditor periodically reports to those in charge with the governance and to the audit committee the significant deficiencies of the internal control.
4. There is an inverse relationship between the quality of internal control and the audit fees.

4.1. Choosing the method for data collection

For testing the hypotheses subjected to the research, we chose the survey (based on a questionnaire), considering that this method is the most suitable for the study undertaken. This method of data collection includes a predetermined set of questions, set up to inform and analyze opinions by direct transmission or by mailing the respondents.

The respondents, in our case, financial auditors or employed to audit companies, were asked, without any insistence, to complete questionnaires and to return them as soon as possible. The questionnaires were completed in electronic format and sent by e-mail, along with a brief letter, to the financial auditors, registered as CAFR (Chamber of Financial Auditors of Romania) members, on their public addresses. We chose this method of sending electronic questionnaires because of its advantages. On one hand, it allows saving time, and on the other hand it helps saving material resources for logistics.

The questionnaire was structured in several areas of interest and the questions were grouped as follows:

- General information about the respondent;
- Understanding and appreciation of internal control.

All questions in the questionnaire were closed type, having predetermined variants, standardized by a response, facilitating the comparisons, the coding and data analysis. The answers to those questions were provided through Likert's scale in five points, graded from 1-not agreed to 5-agreed.

Statistical survey offers efficiency and economy in obtaining data and the results obtained on representative sample are extrapolated to the entire population. One of the most important issues to be resolved when organizing a random survey research is its rational sizing. Making a statistical survey has several stages:

- Extracting a representative sample of the general corporate and collecting data about the units entered in the sample;
- Statistical description of the sample by specific indicators based on the data observed for each recorded feature;
- Extending the results obtained for the sample over the general community.

The general collectivity consists of all the elements forming the research process, excluding the elements composing the sample, which are, actually, a part of the general collectivity, extracted so as to reproduce the main features of it. The sampling method used in the study was the repeatable random sampling. The random selections are recommended when the studied communities are homogeneous, this method eliminating any subjective intervention that forms the sample. The researches carried out in the random sampling area showed that the minimum percentage of a representative sample, on which the statistical data analysis can rely, represents 20% of the analyzed population.

Our research has considered, as reference population, the 1178 auditors, members of the Romanian Financial Auditors Chamber; the sample (theoretically designed) subjected for the research was made up of 404 auditors,

members of CAFR from the Northwest, West and South-West economic development regions of Romania, representing 34.29% of the population subjected to the statistical research.

Starting from the idea that the audit committees, along with understanding and appreciation of the internal control device, can significantly influence the quality of financial reporting and hence to improve the financial audit process, based on the distributed questionnaires, we tried to analyze the knowledge and opinions of specialists. The results obtained in the process of sending e-mail questionnaires have resulted in a number of 70 responses from a total of 320 questionnaires successfully sent, having a rate of responses of 21.87%. We considered satisfactory the answers received after sending the e-mail questionnaires. The responses grouped on the development areas analyzed are the following:

4.2. Demographic analysis

The questionnaire started with a set of three questions formulated in "General information" about the respondent, with the purpose of collecting the following information:

- The form in which the respondent works on the market for audit services;
- Respondent's experience in the field;
- Number of entities audited by the respondent.

These aspects were touched by the 1st and 2nd question of the questionnaire. The respondents were asked about their status on the audit market. The question was formulated to determine the qualitative characteristics of the sample, taking in consideration that, not only in our opinion, the audit quality, and accordingly, the number of missions conducted, is influenced by the status of auditors. In this respect the studies confirm a higher quality of the audit services performed by auditors belonging to companies that activate in the field, compared to the ones operating as individuals.

Helped by the 2nd question of the questionnaire we carried out the delimitation according to the professional experience of the respondents. Similar to the other situation, a series of predetermined answers were given, as three intervals of time (less than 5 years, between 5-10 years, over 10 years), obtaining the following information: The majority of auditors working in economic development areas North- West, West and South- West of Romania have a length range 5-10 years. 40% of the auditors status is "Employed to an audit company" and 34,2 % is "Associated to an audit company". These results express the importance to work in big companies and with qualified teams. Names of the large audit offices attract and force the auditors to work with them. To demonstrate that there is a link between the form how the auditors act on the audit services market and their seniority in the field, the responses of the first two questions of the questionnaire were correlated, resulting in the following situation:

Table 1. Form of activation audit services market. (Length of field)

			The activation form on the audit service market				Total
			Financial auditor – individual	Associated with an audit company	Employed to an audit company	Collaborator to an audit company	
Experience	less than 5 years	number of respondents	2	1	4	1	8
		% experience in audit	25,0%	12,5%	50,0%	12,5%	100%
	between 5 and 10 years	number of respondents	6	14	20	8	48
		% experience in audit	12,5%	29,2%	41,7%	16,7%	100%
	between 10 and 20 years	number of respondents	1	9	4	0	14
		% experience in audit	7,1%	64,3%	28,6%	0%	100%
Total	number of respondents	9	24	28	9	70	
	% experience in audit	12,9%	34,3%	40,0%	12,9%	100%	

By this we wanted to point out that, in Romania, the presence of professionals in this area maybe associated somehow with the period in which large audit offices have opened branches in Romania (1991-Pricewaterhouse Coopers, 1992 –Deloitte & Touche Tomatsu &, 1992-Ernst& Young, 1994 -KPMG) for later on, when the Government Ordinance no. 75/1999 on financial audit appeared, to obtain new values of this profession in its own rights. Another demographic variable in the survey was the number of entities audited by the respondent and this information was collected via question. Both the first and the third question had to determine the influence of professional experience of the respondents over their perceptions about the issues considered in this research. Thus, by analyzing answers to this question, was reached the following information. Entities audited by 19 responders of total 70 are less than 10 years, 22 responders between 10-25, 25 responders between 25-50 and 4 responders more than 50 years respectively. If we apply these data to percentage “between 25-50 years” occupy 35, 7 % of responds. Half of 8 responders have less than 5 years’ experience and employed to audit company. This data gives an idea that most of the inexperienced auditors start working in an audit company to develop their professional careers. Quarter of the responders with experienced less than 2 years’ work individually. This data says that quarter of that auditor column had an experience while studying the university. Auditors employed in Audit Company reduced in the next columns “between 5 and 10 years” and “between 10 and 20 years” respectively. On the other hand we see the inverse result in the “associated with an audit company”. As experienced years increase in the field while the number of “associated with an audit company” increase in the same time. We can ask a question why experienced auditors do not work individually. We can answer to that question as follows: as mentioned above the branches of the large audit offices have been opened so large companies prefer to work with the professional auditors. But we must express that big audit companies did not bring auditors from outside; on the contrary current auditors from Romania work in that big audit companies.

Next, to demonstrate that there is a link between the form how the auditors act on the audit services market and the number of entities audited by them, the answers from the first and the third question were related, resulting in the following situation:

Table 2. Form of activation on the audit services market vs. the number of audit missions

			Number of audited entities				Total	
			Less than 10	10 - 25	25 - 50	More than 50		
Activation form of financial audit services market	Financial auditor – individual	Nr. of respondents	7	2	0	0	9	
		% of the acting form	77,8%	22,2%	0%	0%	100%	
	Associated with an audit company	Nr. of respondents	3	5	15	1	24	
		% of the acting form	12,5%	20,8%	62,5%	4,2%	100%	
	Employed to an audit company	Nr. of respondents	3	12	10	3	28	
		% of the acting form	10,7%	42,9%	35,7%	10,7%	100%	
	Collaborator to an audit company	Nr. of respondents	6	3	0	0	9	
		% of the acting form	66,7%	33,3%	0%	0%	100%	
	Total		Nr. of respondents	19	22	25	4	70
			% of the acting form	27,1%	31,4%	35,7%	5,7%	100%

By this we wanted to reinforce the idea that the number of audits carried out is affected by their membership status on auditors. By isolating the time factor, we found out that auditors who belong to recognized profile companies have carried out more audits than those working individually.

4.3.Descriptive analysis of the perception of financial auditors on internal control appliance

However, in order to achieve the analysis of risks, the auditors should assess the processes of risk management(George & Traian, 2009). The second problem subjected to the research, represented by the correct understanding and appreciation of the internal control device is included in Section “Understanding and Assessing of Internal Control”. This section begins with question number1, which asks respondents to assess the importance of a number of risks that can be prevented by the intervention of internal control device. We considered essential to know about those risks, for improving the perception of intern control, especially for the very important approach of analysis and assessment of internal and even external risks that any entity have to face in its activity, because, one of the most important objectives of financial auditor is to evaluate the internal control system. The goal of the question is to make a top of the risks, in the auditor’s opinion, which can be prevented by the intervention of internal control device.

The aim of the independent audit committee is to monitor the financial reporting process which must produce the accurate, reliable financial information. Of course this monitoring process does not mean that the audit committee should stay all day in the company while controlling the accounting records. Inadequate internal control system is considered as an important cause for the financial information manipulation. Inadequate internal controls over financial reporting and accounting practices could lead to errors, which could adversely impact ability to assure timely and accurate financial reporting. On the other hand every public company must have the internal control department according to its size and should employ the experienced people who can control if the financial reports have been produced accurately and reliable.

That is why Managers invest in internal controls, in part, to prevent and detect fraud. Because these controls are costly, and fraud prevention and detection are difficult, these controls are generally incomplete (Young & Ernst, 2007). Consequently, managers and academics recognize that employees who become aware of wrongdoing such as fraud can play an important role in its early detection (ACFE, Report to the Nations on Occupational Fraud and Abuse, 2006). We can get some investigation results from the survey done by the Association of Certified Fraud Examiners (ACFE) 2010 Report to Nation. These surveys also express the importance of the weaknesses of the internal control system. According to the survey the respondents have been asked to identify which of several common issues they considered to be the primary factor that allowed the fraud to occur. The answer was as follow; a lack of internal controls, such as segregation of duties, was cited as the biggest deficiency in 38% of the cases. In more than 19% of the cases, internal controls were in place but were overridden by the perpetrator or perpetrators in order to commit and conceal the fraud. Interestingly, even though hotlines are consistently the most effective detective control mechanism, and even though less than half of the victim organizations had a hotline in place at the time of the fraud, a lack of reporting mechanism was the control deficiency least commonly cited by the CFEs who participated in study.

After analyzing the responses, resulted the following ranking of assessments, provided by the respondents about the risks that can be prevented with an efficient internal control. Responders have been asked which risks can be prevented with an internal control. Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud (ISA 240 par.11.b). Of 70 responded to fraud risk 67, financial risk 57, operational risk 56, staff risk 55, informatics system risk 41, the risk regarding law 33, the risk regarding deontology 33, the risk regarding the strategy 27, the client risk 10, the market risk 5, the product risk 4 and the commercial appearance risk 3 respectively. 95,7% of responders remarked on fraud risk, 81,4% remarked on financial risk, 80% remarked on operational risk and so on. These data express the importance role of internal control to prevent fraud, financial, operational, staff and informatics system risk. In ISA 330 clarified that the objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Implementing international standards will be able to prevent risks for any company. Not all controls are effective against all frauds. Most control mechanisms are more likely to detect or deter some fraud schemes than others. Likewise, some perpetrators are more adept than others at circumventing particular controls, and some controls are more susceptible to being overridden than others (ACFE, 2010). Risks are inherent factor in any financial activity and may lead to any effects. A French scholar Dominique Vicente interprets the risk as follows: “risk is a threat in the purpose that an event or action to have an adverse impact on the company's capacity to fulfill its objectives successfully” (Dragan, 2005). In this section considering that definition we tried through question number 2, to consider whether the objectives of internal control and financial accounting are correctly perceived by the respondents. After analyzing the responses (table 5) resulted that auditors understand correctly these objectives, therefore **Hypothesis 1st**– “The objectives of internal control, particularly the accounting and finance, are properly understood.” **-is validated.**

Table 3. The degree of agreement of respondents in relation to the objectives of internal control and financial accounting.

No.	Objective	Disagree	Partial Disagree	Neutral	Partial Agree	Agree	Media
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
2.1.	Protecting the entity's activities	0	3	8	26	33	4,27
2.2.	The accordance of accounting and financial information with the accounting rules in force	0	2	7	32	29	4,26
2.3.	The correct appliance of the accounting policies	0	3	13	28	26	4,10
2.4.	Appliance and compliance of the policies established by the management	4	5	14	22	25	3,84
2.5.	Preventing and detecting frauds	1	1	8	20	40	4,39
2.6.	The reliability of accounting and financial information	1	4	9	29	27	4,10

By question number 3 of the questionnaire were collected descriptive data on the perception of auditors in relation to some issues that we have considered important in the understanding and appreciation of the internal control system and how respondents perceive its role in the growth of credibility and financial accounting information and into improving the audit process.

Table 4. The respondent's degree of agreement in relation to some issues concerning internal control

No.	The issue	Disagree	Partial Disagree	Neutral	Partial Agree	Agree	Media
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
3.1.	Expectances of different beneficiaries of the internal control device are correctly identified	1	16	27	18	8	3,23
3.2.	The internal control has an essential role in the growth of the financial information credibility	0	4	9	28	29	4,17
3.3.	The audit / surveillance committee has an active role regarding the internal control of the company	0	1	8	32	29	4,27
3.4.	The audit / surveillance committee frequently monitors the internal control device	0	0	16	33	21	4,07
3.5.	The external auditors periodically evaluates the internal control device	0	6	17	28	19	3,86
3.6.	The external auditors periodically report the deficiencies of the internal control	0	6	11	31	22	3,99

For question 3.1, the average response is measured at 3.23, which shows that many auditors considered that the expectations of different internal control device recipients are properly identified. The second question in this block (3.2.), together with question no. 4, followed analyzing the role of auditor's perceptions of internal control as a factor for increasing the credibility of financial information and to improve the audit process. In this section of the study we asked responders if the internal control and communication of its shortcomings may prove to improve the audit process. 25 responders were agree and 30 responders were partial agree. According to the research 55 of 70 responders gave positive answer. If we apply this number to percentage the result is total 80.5 % of responders agree with this question. Positive answers to this kind of question express the importance of the internal control and internal audit function (IAF) in the financial market. In conclusion, **the 2nd hypothesis** – "The role of internal control in growing the credibility of accounting and financial information and in improving the audit process is perceived by

most auditors” **-is validated**. The third question of the block (3.3.) comes to strengthen some aspects regarding the usefulness of audit committees treated in the previous section, by analyzing respondent’s perceptions regarding the essential and active role of these committees, in monitoring the efficiency of the economic entity's internal control. This aspect brought the partial or total agreement of 87.1% of the respondents, the average responses being 4.27. Questions 3.5, 3.6 considered matters relating to the auditor's understanding of internal control, which means that the auditor will assess how the internal control was designed and implemented, not only identifying its weaknesses in the risk assessment, but also at any stage of the audit. **The 3rd hypothesis** – “Financial Auditor shall report regularly to those in charge with the governance and to the audit committees, the significant weaknesses of the internal control.” **- is validated**.

At the end of the study we wanted to analyze the opinion of specialists in connection with the claim that there should be an inverse relationship between the quality of internal control and audit fees. External audits include an evaluation of the efficiency of internal controls, knowing and understanding the internal control system being an essential activity for an audit mission, the auditor has the obligation to test this system, so that the test will allow him to formulate an opinion about the way they operate in accordance with the informational needs of the entity. In this respect we believe that, inside the entities where internal control system functions well and where they are working on improving it, the auditors should make fewer professional diligence and efforts to conclude on the accuracy and correctness of accounting and financial information, reducing the audit fees. Views of most of the respondents-68.6% from a total of 70 auditors investigated-regarding this subject, are diametrically opposed, 48 expressing their total or partial disapproval, while only 10 expressed their total or partial approval. Finally, **the 4th hypothesis**- “There is an inverse relationship between the quality of internal control and the audit fees” **-is invalidated**.

5. CONCLUSION

ACFE (Association of Certified Fraud Examiners) has described three main occupational frauds: asset misappropriation, corruption and financial statement fraud. These occupational frauds have been defined by ACFE (as follows: Asset misappropriations are those schemes in which the perpetrator steals or misuses an organization’s resources. Corruption schemes involve the employee’s use of his or her influence in business transactions in a way that violates his or her duty to the employer for the purpose of obtaining a benefit for him- or herself or someone else. Financial statement fraud schemes are those involving the intentional misstatement or omission of material information in the organization’s financial reports. Common methods of fraudulent financial statement manipulation include recording fictitious revenues, concealing liabilities or expenses and artificially inflating reported assets (ACFE, 2010).

Fraud definitions mentioned above increase the importance of the internal control role in the financial markets. As we come to conclusion that internal control plays a vital role in the financial markets. In order to work internal control rentable; executive managers and administration of the company should pay importance on the internal control reports. Otherwise efforts made by the internal control applicants become unimportant and this may cause bankruptcy especially in the companies.

Financial losses are immense especially in the last decade after financial crises in 1929 in USA. As we live in the global village every financial movement in the world may have an effect on other financial markets all over the world. Preventing any financial uncertainty starts with the reliable and accurate financial reports. Otherwise financial crises will be inevitable in the financial markets and destructive wind of this situation may trigger the financial world all over the world. Since the financial markets fulfill its functions all over the world effects of internal control have been evaluated by many practitioners and auditors while developing the mathematical models. For an effective internal control all factors should be brought all together. Otherwise to take the healthy decision will be difficult for top managers and this kind of wrong decision may cause to shake the financial structure of the company.

As a result of the research and according to the researches internal audit may improve the transparency and the quality of the financial situation. Users of the financial information should understand correctly the financial reports in order not to affect negatively the decision process. Also researches show that the internal audit report is necessary and an opportunity for the senior management of the companies. Results obtained above in the study may vary from country to country. We here tried to have an idea in the new European country which transformed from communism to democracy in the 1989. Romania succeeded to attract foreign investment better than any other Balkan countries. Maybe Romania is the best which adapted to west countries rather than other ex-communist countries in the region

Biography

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