PERSPECTIVES REGARDING THE QUALITY OF THE INTERNAL AUDIT AND ITS IMPACT ON THE FINANCIAL PERFORMANCES OF THE BANKS IN ROMANIA

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The objectives and responsibilities of the internal audit are expressed and concentrated in both international and national regulations. The scope of the internal audit should include the entire system of the bank for identifying and measuring its regulatory capital and assessing the suitability of its resources for the bank's risk exposures and compliance with the minimum set ratios. The internal audit function should independently assess the bank's systems and processes for measuring and monitoring liquidity positions in relation to its risk profile, external environment, and minimum regulatory requirements. At the same time, internal auditing should regularly review the process by which risk and reporting functions interact to produce timely accurate, relevant, reliable, and accurate financial reporting to the management, regulator, and other stakeholders (shareholders, investors).

Basel III requires that the bank's compliance function, including compliance monitoring, as well as any regulatory requirements, should be reviewed periodically by the internal audit and set a broad scope. One of the significant requirements is that the scope of the internal audit plan should adequately cover all aspects of regulatory requirements.

Keywords:*internal audit, liquidity, performance, Basel III*

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1. Introduction

There are several definitions of internal audit. Thus, the Internal Audit Institution considers that "internal audit is an independent, objective and advisory insurance activity designed to add value and improve the operations of an organization. It supports an organization to achieve its goals, bringing a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and leadership. "The American Institute of Authorized Public Accountants (AICPA), according to the Audit Standard no. 1 considers the audit as an ordinary review of the financial statements by an authorized public accountant to express an opinion on the fairness with which the financial statements, the results of the operations carried out, and the changes in the organization's financial statements in the accordance with generally accepted accounting principles.

The National Commission of Accountants of France delimits the financial audit as the examination by a competent and independent professional organization in order to express a reasoned opinion on the regularity, sincerity and true image of the annual accounts of the entity.

The concept of corporate governance has several definitions, due to the complex elements on which it covers. In principle, corporate governance is the system by which are driven and controlled companies. The structures of the corporate affairs specifies the distribution of the rights and responsibilities of the different direct or indirect participants in the work of the company or institution - executive leadership, managers, employees, shareholders, customers, financiers, as well as rules and procedures governing the process of taking decisions, laying down the objectives, methods of touch and the performance monitoring [6].

The impact of the global crisis was manifested gradually, but overwhelming on the profitability of the banking sector, with the impact of the wide range of banking products and services made available to customers, on models and methods for monitoring and assessment methods related to commonly known, up to this moment.

Because of free markets to operate effectively, it is important to have elements of responsibility, ethics, responsabilizare and transparency. Corporate governance has received a considerable attention over the last decades in order to inspire confidence in the parties involved in the management of the organizations. Many authors suggest that corporate guvemanta at the level of the financial sector is different from that recorded in this sector nonfinanciar, because of its nature and excessive opaque rules[14].

2. Banking internal audit - methodological examination for the assessment of entity effectiveness

The conduct of the internal bank audit process as a methodical examination to assess the effectiveness of the entity implies compliance with the following general principles covering both the general characteristics of the business, the requirements for internal auditors and the actual conduct of the audit internal:

- independence of internal bank audit;
- impartiality and objectivity of internal banking audit;
- the permanence of internal bank audit;
- integrity and professional competence;
- the confidentiality of the internal audit.

The objective of internal audit of credit institutions is to improve their activity. In order to achieve the aforementioned objective, the internal audit of credit institutions shall include at least the following activities.

All types of audits aim to improve the use of information. Professionals in the control and audit area have set goals that are linked and interrelated with each other, as follows:

Figure. no 1 ,,Types of internal audit"

Internal control verifies that activities and operations are conducted in compliance with applicable law.

The internal audit verifies the existence and functioning of the internal control system and assesses its effectiveness, and as a result, can make recommendations for giving up certain control actions in a certain area or developing others.

External auditing ensures that the system described above exists and works at the organization level. In this regard, it is necessary to ensure that internal control and internal audit objectives are performed according to professional standards by professionals and all activities and structures within the organization are considered.

We can say that among the key elements of a solid corporate governesses at the level of a bank, shall include the following:

- the establishment and execution of the clear responsibilities, the authority to make decisions and other tasks which are appropriate to the risk profile of the bank;
- a strong risk-management systems, adequate internal control and design operational

processes, with subsequent check on them;

- the implementation of the corporate values of the organization, rules of conduct and other standards of behavior, as well as adequate and effective systems used in order to ensure their compliance. These include special monitoring of exposures to risk of a bank in the situations in which it is to be expected to arise conflicts of interests;
- the transparency and the reality of the information transmitted to the users, both internal and external factors.

According to the Romanian Association of Banks[15], the impact Brexit is yet to be analyzed at the level of the industry and depends on the way in which will conclude negotiations between the EU and the United Kingdom, and the capacity of the EU to adopt the policy to continue the integration process. Although the implications will not show only a small extent in the near future, Romania will have to calibrate the policies in the medium and long term from the major challenges faced by the Community.

The banks adopting new business models and strategies, in accordance with the new European regulatory requirements and in accordance with the competition on the rise. We need to make as many steps as to contribute to the financing of the economy, to participate as much as possible to the formation of the Gross Domestic Product and increase the inclusion of financial management. The banking system can demonstrate once more the capacity and the willingness to participate in economic growth.

3. Risk management - component of corporate governance applied in the Romanian banking system

In the banking sector in Romania shall conduct its activity both banks states of multinational groups, as well as the domestic banks with capital. The banks components registers a bar minidramas that the mechanisms related to the group, with the anchoring of specific items of legislation.

The main pillars of corporate governance shall be deemed to be[1]:

Figure no. 2 „The pillars of corporate affairs"

Corporate governance is a permanent topic timeliness and of wide interest, which has the primary purpose of ensuring adequate protection of investors and financial institutions. This interest on corporate affairs is due to its influence on the healthy economic growth of cormpaniilor and on society as a whole.

The monitoring function and management must be met within each credit institutions. The supervisory authority, the National Bank of Romania, will verify whether the credit institutions and established in accordance with the regulations, the decision-making process in terms of a hierarchy and responsibilities.

In order to implement an effective corporate guvemante bank for risk management, the management structure of the credit institution have the following main attributions(figure no. 3):

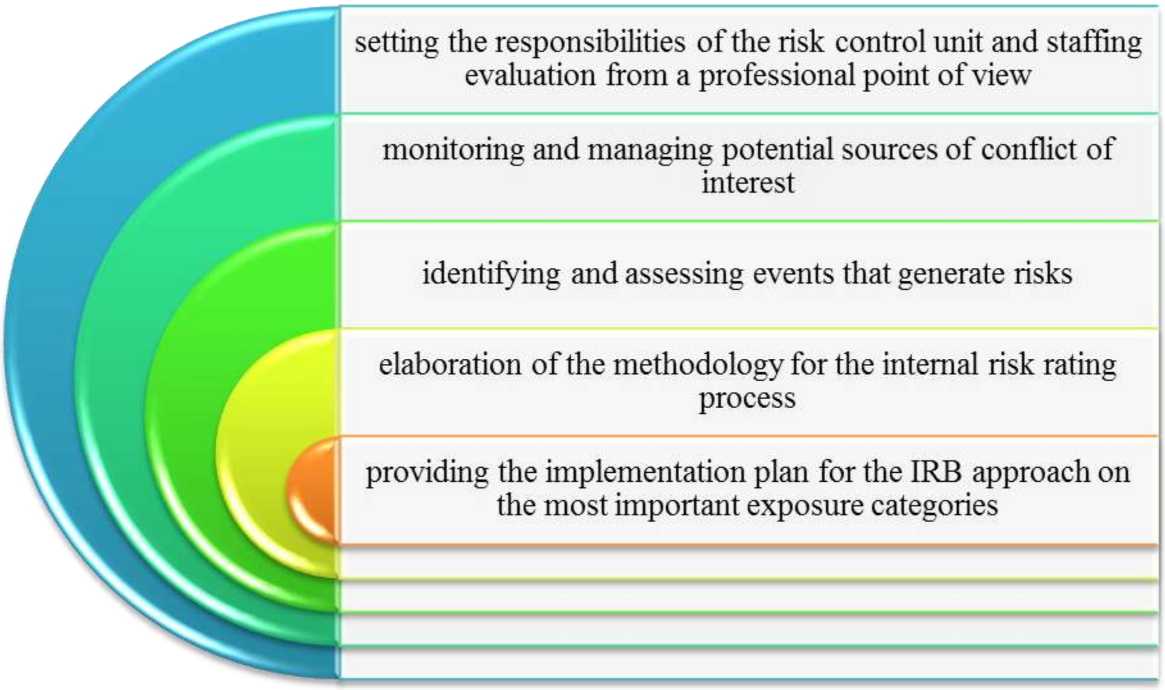

Figure no. 3 "The attributions of the management structures"

The corporate governance system envisages the following:

- permanent monitoring of the credit institution's activities, the management of the institution and the risk control staff should meet periodically to discuss performance, areas that need to be improved, and, last but not least, the state of deficiencies previously identified;
- the existence of a risk control unit within each credit institution that performs the significant risk control function;
- providing a general assessment of the adequacy of the internal control system and bank risk control function by internal audit;
- the existence of an internal reporting system that varies according to the nature, size and degree of complexity of the credit institution and which is based on the institution's risk profile analysis.

The credibility, fairness and transparency in the relations with the shareholders, the assumed responsibilities, the optimal management of the function related to the efficient management of the risks to which they are exposed are essential for an optimal corporate governance, able to promote and support the performance of the Romanian banking system, and the entire national economy.

According to the principles of corporate governance, in the spirit of the provisions of the regulatory framework issued by the National Bank of Romania, the management structure as a whole and the function of supervision in particular have a responsibility to establish, assessment and regular review and systemic to the organization of the activity of the bank, the powers and responsibilities of the collective and individual modalitatiii to monitor the implementation and application of the full set of rules, workflows and control keys, from the perspective of the Mission and Vision commitments, to the attainment of the objectives laid down by business plans, efficient management of the risks.

4. Conclusions

Internal audit is an independent and objective function that gives a bank a degree of control over the operations, guides it to improve its business and contributes to adding value. Internal audit helps the bank achieve its objectives by systematically and methodically assessing its risk management, control, management, and proposal processes to enhance its effectiveness.

The Basel III capital agreement introduces extensive capital and quality capital requirements, new liquidity requirements, a counterparty credit risk review, and a benchmark for banks in member countries of the Basel Committee. The legal framework for Basel III, which regulates access to activity, supervision and prudential rules applicable to credit institutions and investment firms, is being phased in gradually from 1 January 2014 until the end of 2018.

Basel III requires that the bank's compliance function, including the enforcement of laws and regulations, as well as any regulatory requirements, should be reviewed periodically by the internal audit and set a broad scope. One of the significant requirements is that the scope of the internal audit plan should adequately cover all aspects of regulatory requirements.

In this context, banks in the Romanian banking system will take a series of measures to meet capital requirements and strengthen their resilience to shocks, as a result of the risks to which they are exposed, in order to:

- to ensure the alignment of internal banking processes with the standards and regulations imposed by Basel III;
- to implement Basel III requirements so as to ensure the optimization of risk management processes and, respectively, bank compliance with related standards / regulations;
- to optimize the process of verifying the level of capital adequacy in banks.

At the same time with the banks' sustained interest in respecting minimum capital standards, effective liquidity management, reduction of exposure to potential risks, high importance will be given to aspects of corporate governance that will ensure the fulfillment of the prerequisites for sustainable, sustained and efficient banking system.

The purpose of introducing Basel III is to make the European banking system more secure, with banks improving their ability to manage systemic risk by increasing the quality and size of capital, and renewing liquidity management (greater emphasis on quality and efficiency). As a matter of fact, specialists warn that banks will have to consider [10]:

- an efficient management of capital and liquidity,
- balance sheet restructuring, as well,
- adjusting the business model and financial services offered to customers.

This requires a thorough analysis of the banks, a restructuring not only of the "sake" of the structure but, above all, in the interest of all, from shareholders (and potential investors), internal / internal organizational structures to clients and public authorities / governments.

If, at European level, a substantial capital and capital deficit is estimated liquidity, with a major impact on profitability indicators, the impact of Basel III on the banking system in Romania is considered a be limited.

Measures that credit institutions might adopt in the attenuation of the impact of alignment with the new standards is adjustment the business model and the restructuring of bank balances.

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