

METHODOLOGICAL FOUNDATIONS OF THE ASSESSMENT OF INTERNAL AUDIT

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Over the years internal audit has proven its important function both to the public and the private sector. Just like every other constructive activity, internal audit has its own methodology. The methodology for assessing the internal audit, which is part of the constructive elements of the internal audit mechanism is still a controversial issue. The lack of a uniform, well-established algorithm for assessing the quality of the internal audit, which is adequately structured, applying the standards of internal audit and following the principles of audit, are the main factors for setting the aim of the article, namely to systematically present the methodology for assessment of the internal audit, both in the public and in the non-public /private/ sector. The object of study are the methods for assessment of the internal audit. In order to achieve the above aim, it is necessary to carry out the following main tasks:

1. Present the main methods of assessing the quality of the internal audit in the public sector.
2. Analyse the methods of assessing the quality of the internal audit in the non-public /private/ sector.
3. Make a comparison of the methods presented in the article.

1. Methods of assessing the quality of the internal audit in the public sector

When the matter in hand is the assessment of the internal audit, each assessor is to provide answers to the following essential questions, namely:

- 1. What is the object of assessment?** – is the object of assessment the entire System of State Financial Control /SSFC/; is the object of assessment the adopted by each organization of the public sector Financial Management and Control System /FMCS/; is the object of assessment internal audit itself as part of the SSFC; is the object of assessment the function of the internal audit, etc.
- 2. What is to be assessed?** – is it the nature of the object; is it the role and the importance of the object; are the object of assessment the individual constituent parts of the object, etc.
- 3. How will the assessment be done?** Although this question comes last, it is fundamental since there must be chosen the appropriate methodology for assessment, which is based on the correct answer to the previous two questions.
- 4. Who will perform the assessment?** – this is an important question in view of the choice of assessment method, and whether the assessing authority is internal or external to the object being assessed. The powers of the assessing body determine on the one hand the object to be assessed, and also the methods of assessment.

The normative regulation of the requirement for assessment of IA /internal audit/ over the years has considerably changed, following the global changes in the political and economic situation. The adoption and the subsequent amendment of the International Standards on Auditing for internal audit; the passing of the Sarbanes-Oxley Act in 2002; the ratification of the frameworks for internal audit **COSO**, **COCO**, **ERM**; the introduction of quality management systems such as **TQM /Total Quality Management/**, and at a later stage the introduction of the standards on quality, both in the public sector and in the non-public sector, are all factors affecting the change in the methodology for assessing the internal audit.

The powers for assessing the System for State Financial Control /SSFC/ are granted to the European Council, the European Commission and from the European Court of Auditors /INTOSAI/. The European Commission is divided into two individual subcommittees, namely the European Council on Economic and Financial Affairs and the European Anti-fraud Office /OLAF/. SSFC is assessed in different aspects by the above institutions, depending on whether the system being assessed belongs to an EU member state or there is assessed the adaptation and the harmonization of SSFC with the Copenhagen Criteria of the EU to candidate countries. The assessment in both cases is aimed at the constituent elements of SSFC, in order to establish through normative acts the audit in the public sector; to introduce or improve /if already introduced/ the System of Financial Management and Control /SFMC/; the affirmation of inspection activities; the introduction of a central harmonized unit whose main aim is the provision of a methodology for the realization of internal audit and guidelines for the development of SFMC.

In Bulgaria an aggregated assessment of the state and the quality of the internal audit in the public sector is made by the Directorate of Internal Audit with the Ministry of Finance. The directorate is comparatively new, it has been in existence since 2005 and was created in order to fulfil the commitments assumed in the process of Bulgaria's accession to the EU. The directorate performs the functions of a central harmonizing unit with two separate divisions, responsible for the methodology and the harmonization of the systems of financial management and internal audit. Until 2005 this function was performed by the department Methodology of the Budgetary Control and the directorate Harmonization and Methodology of Auditing Activity with the Agency of State Internal Financial Control /ASIFC/.¹ The directorate Internal Audit prepares a Consolidated Annual Report on the state of the system for financial management and control and internal audit. The report is submitted by the minister of finance for consideration of the given consolidated assessment of the state of SFMC and internal audit in the public sector. On its part, the Council of Ministers, having considered and approved the report, submits it to the National Assembly and the Audit Office.

The consolidated assessment of the internal audit in the public sector is an external assessment. It is made following the requirements of: the international standards on

¹ Nova direkciya stave centralno zveno na sistemite na finansovoto upravlenie, control i vatreshen odit. www.econ.bg, accessed on 10 mar 2014.

internal audit in the public sector; The Law on Financial Management and Control in the Public Sector/LFMCPS/;² The Law on Internal Audit in the Public Sector /LIAPS/ and Ordinance No 1 of 17 Jan 2011 on the conditions, order and method of performing external assessments for ensuring the quality of the auditing activity.

The issue of the assessment of internal audit is treated in the inherent to the activity international standards on the professional practices of internal audit / Intermediate Pharmacy Practice Experience - IPPE/. In international aspect, the best practices of internal audit, identified by the Institute of Internal Auditors – IIA, require the conducting of an independent assessment of the quality of the function of internal audit at least once every five years. Through the international standard on auditing - Standard 1300, the Institute of Internal Auditors aims to provide the opportunity for assessing the compliance of the activity of the internal audit with the definition of internal audit and the rest of the adopted standards. The remaining standards on auditing supplement part of the requirements of Standard 1300. Thus for example Standard 1312 requires that each internal audit department is submitted to external quality assessment at least once every five years by an independent assessor external to the organization.³

Standard 1311 regulates the internal assessments, which the internal auditors are to carry out following the requirements of the developed Quality Assurance Programme and are the affirmation of internal audit. The Programme should be developed by the Head of Internal Audit, following the requirements of Standard 1300 and Standard 1310. The Programme must be developed in accordance with the definition of internal audit, the Standards and the Code of Ethics of internal auditors. The Programme must include both internal and external assessments. It should also be aimed at assessing the effectiveness and the efficiency of the activity of internal audit and identify possibilities for improving internal audit.⁴

We think that a shortcoming of the standards is the setting of the imposed requirement for assessing the internal audit, however they do not present the methodology of this process. It can be concluded that this is the main reason why in the practice there are applied various assessment models and approaches. According to Prof. Dr. Ec. Sc. K. Donev “as a result of the adoption of different approaches to the study of the measurement and assessment, there is observed a variety of opinions with respect to the nature, the content, the stages and the ways of using the information from the assessments and the measurement”.⁵ Thus for example Vikram Desai and Robin W. Roberts propose a model that is based on the assessment of the three main distinctive features of internal audit that are revealed in the execution of the assigned tasks, namely: competence, work performance and objectivity. The above model is a

² LAW ON THE FINANCIAL MANAGEMENT AND CONTROL IN THE PUBLIC SECTOR - Prom. SG. Iss.21 of 10 March 2006, amend. SG. Iss.42 of 5 June 2009, amend. SG. Iss.54 of 16 July 2010, amend. SG. Iss.98 of 13 December 2011, amend. SG. Iss.15 of 15 February 2013.

³ Quality Assessment of Internal Audits - www.qfinance.com, accessed on 05 Mar 2014.

⁴ Standards on International Professional Practices of Internal Audit – IPPE.

⁵ Donev, K. *Teoriya na finansoviya control*. Varna: Nauka i ikonomika. 2010, p. 49.

modernized version of the model of Maletta (1993) and Krishnamoorthy (2002) proposed years ago. The modernized model is called Gener-ates, and the model, according to its creators, is aimed more specifically at assessing the function of the internal audit, through assessing the competence, the work performance and the objectivity of the internal auditors. The new model requires no assessment of conditional probabilities. The model proposed by **Vikram Desai and Robin W. Roberts**⁶ states that each factor affecting the internal audit is to be studied and analyzed. According to the creators of this model - the competence, the work performance and the objectivity can be presented in terms of value using different assessment scales. The propounded model is also called Model of interdependences (according to its creators). The model analyzes the interrelation between the collected evidence and the three factors: competence, work performance and objectivity. The most important aspect of this model is that on the basis of it there can be determined the need for the inclusion of additional auditors in the auditing process at any time during the flow of the control process. The model is presented in the following way:⁷

$$SS = CY]] WS]] OY \quad (1)$$

$$\text{or } Sw = Cn]] Wn]] On \quad (2)$$

All variables in the presented model are of two values. For instance the Competence factor (C) can have two possible values: the internal auditors are either competent (Cy) or incompetent (Cn). Similarly, the Work performance (W) can be satisfactory (Ws) or unsatisfactory (Wn) and, respectively, the internal auditors can be objective (Oy) or non-objective (On). Therefore according to the presented functional interdependences, in the proposed model the internal audit is of high quality only if the internal auditors are competent (Cy), their work performance is satisfactory (Ws) and they are objective (Oy), i.e. the functional interdependence is of type (1). The internal audit is considered to be of poor quality when the internal auditors are incompetent (Cn), their work performance is unsatisfactory (Wn) and they are not objective (On), i.e. the interdependence is presented by formula (2).

As a good foreign practice with regard to the adoption of a model for assessing the internal audit, there can be given the policy of the Government of Jamaica, which has developed an Internal Audit Quality Assurance Program by way of improving the previously adopted **Internal Audit Program**.⁸ The program has been revised by the Ministry of Finance and is aimed at strengthening the position of the unit on internal audit with the Ministry of Finance. Every effective program for assuring and improving the quality of internal audit starts with the approval of policies, practices and procedures, following the requirements of the International Standards on Internal Audit. During

⁶ Desai, V., Roberts, R., An Analytical Model for External Auditor Evaluation of the Internal Audit Function Using Belief Functions. www.papers.ssrn.com, accessed on 15 Mar 2014.

⁷ Desai, V., Roberts, R., An Analytical Model for External Auditor Evaluation of the Internal Audit Function Using Belief Functions. www.papers.ssrn.com, accessed on 15 Mar 2014.

⁸ INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP) Policy and Procedures Manual - . www.papers.ssrn.com, accessed on 10 Mar 2014.

the execution of the internal audit there should be done on-going reviews of the operations. Each unit for internal audit is required to do an assessment of the people employed in the audit activity every five years.

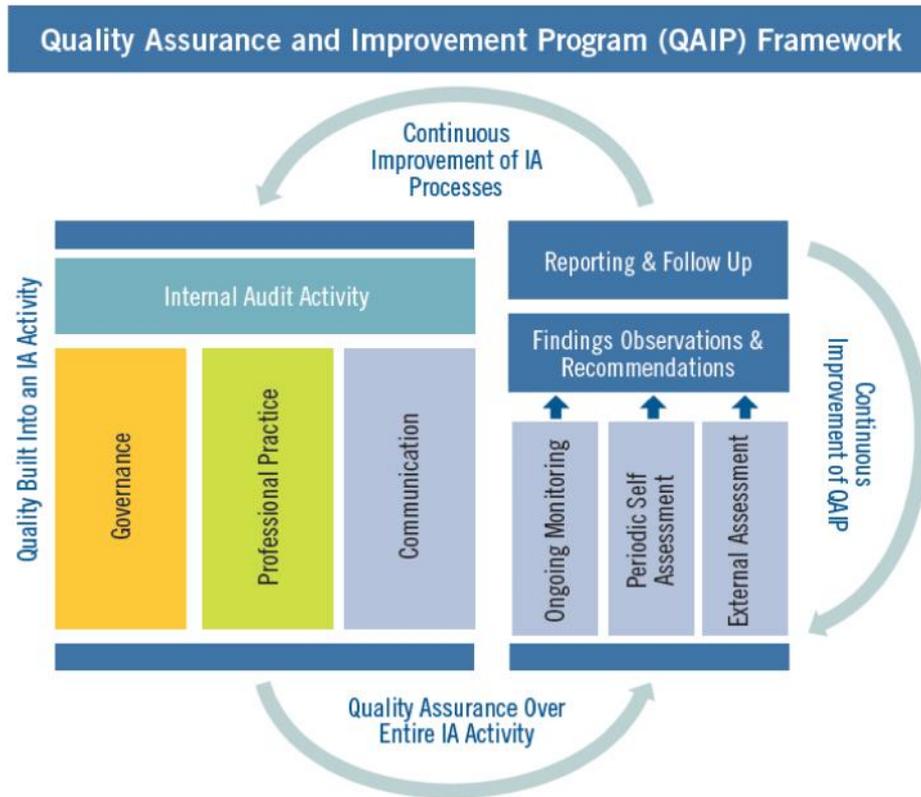
According to the approved Program for assessing the quality of internal audit in Jamaica, through it the internal auditors are to build their conclusion on the quality of the internal audit, and also the program is to serve as a basis for the provision of structured proper recommendations, improving the activities of the internal audit. The program is to give an assessment on:⁹

1. The application of the international standards on internal audit.
2. Conformance with the definition of Internal Auditing and the Code of Ethics.
3. The adequacy of the internal audit activity's charter with respect to the activities, goals, objectives, policies and procedures.
4. The contribution to the organization's governance, risk management, and control processes.
5. Completeness of coverage of the entire audit universe.¹⁰
6. Compliance with applicable laws, regulations or standards to which the internal audit activity may be subject.
7. The effectiveness of activities, continuous improvement and adoption of best practices.

Therefore in order to give an accurate assessment of the quality of internal control, it is necessary to follow exactly the framework for quality assurance and improvement of the programme. The framework can be presented by means of the following figure:

⁹ INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP) Policy and Procedures Manual - . www.papers.ssrn.com, accessed on 10.03.2014 .

¹⁰ Audit universe is a concept borrowed from the Manual on Internal Audit. The audit universe is a comprehensive list of all audit units in the organization (the areas subject to audit). The audit universe represents the full range of the internal audit in the organization and serves as the basis of long-term planning. In order to specify the audit universe, FIA should use the information gathered at the preceding stage.



Source: *INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP) Policy and Procedures Manual.*

Fig. No 1. Framework for quality assurance of internal audit and improvement of the auditing program

The framework for assessment of the internal audit of Jamaica presented above coincides with the established methodology of the Ministry of Finance in Bulgaria. The two methodologies are structurally identical, since they follow the requirements of the international standards on professional practice in internal audit. The framework which determines the standards in order to carry out an assessment of the internal audit has imperative character. The standards do not preclude the application of another methodology. There can be applied **n** in number methods alongside the methodology set out in the standards. The results of the assessment methods may be identical, but they may also be different. In case of different results, there can be done a more profound analysis by determining whether the suggested new method - different from the one adopted by the standards - is most suitable and effective to the respective enterprise from the public sector.

2. Methods of assessment of the internal audit in the non-public /private/ sector

Internal audit in the non-public /private/ sector has, in recent years, on the basis of the dynamically changing situation, developed and affirmed itself as an important division in trade companies. The internal audit in trade companies has gradually expanded its sphere of operation, taking greater part in the control and the management of risk, as well as in the management processes. In the light of these changes, there have been introduced new auditing concepts having to do with determining the added value of the internal audit and determining its quality and efficiency. In order to determine the quality of internal audit, and also to determine the efficiency and the effectiveness of the system of internal audit, there is the ever increasing need to find appropriate methods for measuring and assessing the operating resources, providing the added value of the audit. For that reason, the main aim of this part of the article is to identify the significant kinds of methods used in determining the quality of the internal audit. In this context, the issues of measuring the quality of internal audit receive increasingly greater valencies, taking into account the changes of the normative system in this direction.

Part of the researchers believe that the quality of the internal audit is measured by way of the added value of the internal audit.¹¹ According to the proponents of this thesis, there exist many methods and tools, which can be combined with qualitative and quantitative elements in order to determine the added value which the internal audit realizes.¹² To this group of researchers there belongs **Frigo M. L.**, by way of the proposed method of **Balanced Scorecard**. The method incorporates the following elements: 1. customers of the internal audit; 2. the process of the internal audit; 3. innovations and opportunities. In designing the model **Balanced Scorecard** its creator is lead by the fact that there are established concepts, which could be applied to the departments of the internal audit, such as:¹³

1. Measuring efficiency from the point of view of the user of the information of the internal audit.
2. Identifying certain indicators for determining the number of jobs of the internal audit.
3. The connection between the internal audit and the expectations of the customer.
4. The emphasis on the general strategies of the department.
5. The innovations and the possibilities of the internal audit.

Through the model **Frigo M. L.** aims to emphasize the ways in which the departments of internal audit can improve their activity with respect to the execution of the procedures of the internal audit.

¹¹ Cristina, B., MEASURING AND ASSESSMENT OF INTERNAL AUDIT'S EFFECTIVENESS, www.steconomice.uoradea.ro, accessed on 20 Mar 2014.

¹² Cristina, B., MEASURING AND ASSESSMENT OF INTERNAL AUDIT'S EFFECTIVENESS, www.steconomice.uoradea.ro, accessed on 20 Mar 2014.

¹³ Cristina, B., MEASURING AND ASSESSMENT OF INTERNAL AUDIT'S EFFECTIVENESS, www.steconomice.uoradea.ro, accessed on 20 Mar 2014.

We believe that in order to determine whether the model of **Frigo M. L.** is effective and easily applicable in the practice, it is necessary to practically compare it with another model. Thus for example, **D. Prawitt** and **J. Smith** assess the quality of the internal audit through its impact on financial reporting. There is considered the relation between the internal audit and the management of earnings, through a combination of publicly available data and data which has been processed by the Institute of Internal Auditors (IIA). The proposed model of **D. Prawitt** and **J. Smith** is built on the basis of dependent variables, which affect the final assessment of the internal audit. **D. Prawitt** and **J. Smith** apply the following *multinomial logistic model*, in order to check whether the companies, which allow for the expectations of analysts of high and quality management of earnings, are likely to have high quality of the internal audit functions. The entire model is presented by means of the following equation:¹⁴

$$\begin{aligned} \text{Above} = & \beta_0 + \beta_1 \text{AQuality} + \beta_2 \text{ACEffectiveness} + \beta_3 \text{AuditorSpecialist} + \\ & \beta_4 \text{Gindex} + \beta_5 \text{Asset} + \beta_6 \text{Age} + \beta_7 \text{Leverage} + \beta_8 \text{Complexity} + \beta_9 \text{CFO} + \\ & \beta_{10} \text{SalesGrowth} + \beta_{11} \text{MB} + \beta_{12} \text{CFOVolatility} + \beta_{13} \text{ROA} + \beta_{14} \text{Loss} + \beta_{15} \text{NYSE} \\ & + \beta_{16} \text{IndustryDummies} + \beta_{17} \text{YearDummies} + \epsilon \end{aligned}$$

Where:

Above – internal audit

IAQuality - independent variable, reflecting the inaccurate current accounting of revenues

0 – 25 – control variables. The inclusion of the control variables into each element of corporate governance increases the probability for the coefficient **IAQuality** to represent the partial participation of internal auditors in the management of earnings.

ACEffectiveness – the effectiveness of the audit committee. Previous studies in the area of financial control show that the higher quality of audit committees is connected with a greater internal participation of the auditors, including greater budgetary expenditures.

AuditorSpecialist is a dummy variable, which shows whether the external auditor is a specialist or not.

Gindex – managerial role in corporate governance.

Assets – total value of the assets. For big companies this reporting entity exerts significant influence on the realization of the internal audit.

Age – the life cycle of the company.

Leveraged – presents the effect (profit or loss) of a given financial operation essential to the company.

Complexity – complexity is taken into consideration since the managers of the companies which have more complex operations are able to invest a greater amount of funds into internal audit, and have greater opportunities to cover the management of earnings.

¹⁴ Prawitt, D., Smith, J., INTERNAL AUDIT QUALITY AND EARNINGS MANAGEMENT, The Accounting Review, Vol. 84, No. 4, pp. 1255-1280, 2009.

CFO – the qualities of the financial officer.

Sales Growth – the growth of the company's sales.

CFOVolatility – variable cash flows.

ROA – return on assets.

Loss – the loss of the company.

NYSE – data on the company from the **New York Stock Exchange /NYSE/**, as the companies registered on the New York Stock Exchange are required to perform internal audit.

IndustryDummies and **YearDummies** – the different levels of extraordinary expenses by activity and year.

It can be concluded that the proposed method is more detailed from the point of view of the variables included in it affecting the internal audit. The applied aspects of the model, we believe, are limited, as it is necessary for the assessor to have adequate and reliable information for each of the components participating in the presented mathematical equation. Although for the presented methodology of **D. Prawitt** and **J. Smith** considerable available information is required, we believe that the methodology can be adapted for use in our controlling practice as well. We find the following positive aspects of the proposed method:

1. The connection is determined between the internal audit and the financial and accounting activity of a particular company.
2. The relation is presented between the internal audit and the management of earnings. With the help of the proposed method it is ascertained that there is a directly proportional relation between the two processes. It can be concluded that one of the tasks of internal control is to perform an inspection of the revenues of the company. The higher the quality of internal audit, the more effective the management of earnings is going to be.

In the above model there can also be discovered a number of weaknesses:

1. It is intended for large companies, whose information from the financial statements has been disclosed in detail.
2. The model is not applicable to small and medium-sized enterprises.
3. There is no categorical proof of the relation between the quality management of internal audit and the trend of growth and quality management of earnings for a particular company.
4. The model can be applied in our controlling practice, only after considerable and substantial revision of the components included in it. The reason for this is that part of the dependent variables are not typical of our commercial partnerships, such as the indicator **NYSE**, which is characteristic of the companies, quoted on the New York Stock Exchange.

Douglas F. Prawitt and **Jason L. Smith** put forward another method for determining the quality of the internal audit. The researchers suggest that the function of the internal audit be measured with the help of a complex assessment comprising six individual components determining the quality of the internal audit. The method conforms to the requirements of Standard 65 (SAS 65). The method is aimed at

assessing the quality of the internal audit in respect of its role in financial reporting. According to **Douglas F. Prawitt** and **Jason L. Smith** the quality of the internal audit is connected with the management of earnings. For that reason it is necessary that in the management of earnings we watch for wrongful increase in revenues and what the likelihood of not reaching the revenues forecasted by analysts is.¹⁵

Other specialists suggest the assessment of the internal audit be measured by means of the discovered internal violations and fraud. The French specialist **Sansakrit S. Vichitlekarn** offers a model for revealing the interaction between the manager of the company committing the fraud and the internal auditor, who wishes to uncover those. In their model **S. Vichitlekarn** denotes with (α) the probability that the control system features some kind of deficiency and with $(1-\alpha)$ the probability that the control system is effective. F denotes the advantage the manager gets when the fraud is not discovered. If the control system is effective, it means that the manager has made the necessary effort (w) in order to achieve this result, through the elimination of the fraud ($F-w$). When the company is involved in fraud and this is ascertained by the auditor, the people managing the company are to bear the respective sanctions (β) in the form of fines, sanctions including the heavy measure of imprisonment. The probability that the manager is up against the kind of system $t \in \{w, s\}$ for committing fraud in the context of a mixed system is $\alpha_t \in [0,1]$.¹⁶

In the proposed model of **Sansakrit S. Vichitlekarn** there is provided the opportunity to determine the efficiency of the control system through the application of substantive testing (i.e. through determining the intensity of the work), denoted as $(\alpha \in [0,1])$ respectively), on the basis of the knowledge of α . If the manager decides to commit fraud, the probability of the auditor uncovering it is $d(x)$. The author suggests that the control function for revealing fraud be $d(x)$ and it be presented in the following manner:

$$d(x) = 1 - \alpha \{1 - \beta x\}, \text{ where the parameter } \beta \in [0,1].^{17}$$

Through the presented model there is proven the responsibility of the auditor for the discovery of fraud in the structure being inspected and the importance of that responsibility for the definition of an accurate assessment of the quality of the internal audit. We believe that the presented model has its weaknesses, since during the auditing process there may not be noticed some insignificant deviations in the indicators of the unit being inspected, but this does not mean that the auditing job has been carried out inaccurately and without the required dose of professionalism on the part of the auditor.

The complexity of the auditing assessments of quality, regardless of whether they are internal or external assessments to a particular organization, makes them

¹⁵ Prawitt, D., Smith, J., INTERNAL AUDIT QUALITY AND EARNINGS MANAGEMENT, The Accounting Review, Vol. 84, No. 4, pp. 1255-1280, 2009

¹⁶ Vichitlekarn, S. The Interaction between Internal Control Assessment and Substantive Testing in Audits for Fraud. Contemporary Accounting Research Vol. 17 No. 2, pp.327-56.

¹⁷ Vichitlekarn, S. The Interaction between Internal Control Assessment and Substantive Testing in Audits for Fraud. Contemporary Accounting Research Vol. 17 No. 2, pp.327-56.

always topical as objects of study. Their complexity and dynamism are determined by the dynamics of organizational development, and as a result of that there is also the improvement in the methodology of internal control. It can be concluded - on the basis of everything presented thus far - that the assessments on the quality of the internal audit are a process of determining the efficiency and effectiveness of the organization, through the performance of comprehensive, qualitative and appropriate auditing procedures. In practice it is suggested that the methodology of the assessment be viewed individually in two independent areas, namely the one methodology concerning external appraisals for assessing the quality of the internal audit, whereas the other is to be directed towards internal assessment.¹⁸ The internal assessment can be done by means of the combined application of the following auditing approaches:

1. The auditing process “**backward glance**” – according to this approach, part of the audits conducted during the current year are to be compared by way of results with previously performed audits. The number of audits which will be analysed in this way is determined by the head of the internal [audit], in concert with its director. The purpose of this comparison is to establish whether there are any omissions in the auditing procedures and whether the assessment methods have been applied correctly.
2. Auditing process “**performance in real time**” - the aim of this approach is to make an assessment of the advancement of the entity being audited by making a comparison with the previously planned data. On the basis of the comparative analysis, there is presented the assessment on the state of the internal audit.
3. The use of auditing **questionnaires**. The aim is, using specific questions, whose answers are of the closed type – “yes” and “no”, to survey the internal auditors of the organization and on the basis of the responses to work out the assessment: first of the audited unit itself; second, in this way there can be worked out an assessment of a particular auditing commitment/commitments; third, to work out an assessment of the internal audit of the entire organization /if the organization is made up of individual units, i.e. to give a generalized assessment of all structural units of the organization/.

3. Theoretical comparison between the presented methods

In a systematic manner, the comparison between the presented methods for determining the quality of the internal audit from the public and the non-public (private) sector, is presented by means of Table No 1 and Table No 2.

¹⁸ Internal audit: Internal Quality Assessments - www.morganfranklin.com, accessed on 25 Apr 2014.

Table 1

**Differences between the presented in the article methods
for assessing the quality of the internal audit in the public sector**

Internal Audit /IA/ in the public sector							
Methods	Indicators					<i>Development</i>	Object of assessment
	Application of the systematic approach	Application of the disciplinary approach	Responsibility for the application of the method	Possibility for realizing the controlling functions			
<i>1. The methodology set out in the standards on internal audit in the public sector</i>	<i>Yes</i>	<i>Yes</i>	<i>The management of the organization from the public sector</i>	<i>Yes</i>	<i>The higher authority</i>	<i>The quality, efficiency and effectiveness of IA</i>	
2. Method of Vikram Desai and Robin W. Roberts	<i>Yes</i>	<i>Yes</i>	<i>The internal auditors, the application of the method is recommended</i>	<i>Yes</i>	<i>The higher authority</i>	<i>The qualities of internal auditors – competence, work performance and objectivity</i>	
3. Model Gener-ates	<i>Yes</i>	<i>Yes</i>	<i>The internal auditors and the leadership, the application of the method is recommended</i>	<i>Yes</i>	<i>The higher authority</i>	<i>The functions of control</i>	
4. Method of Douglas F. Prawitt and Jason L. Smith	<i>Yes</i>	<i>Yes</i>	<i>The internal auditors and the leadership, the application of the method is recommended</i>	<i>Yes</i>	<i>The higher authority</i>	<i>The object of assessment is as per Standard 65</i>	

5. Method of Matthew Ege	Yes	Yes	<i>The internal auditors and the leadership, the application of the method is recommended</i>	Yes	<i>The higher authority</i>	<i>Take into account the ascertained on the part of the auditors wrongful deeds and actions of the perpetrators, such as: fraud, bribery; misleading accounting and managerial practices, etc.</i>
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Table 2

**Differences between the presented in the article methods
for assessing the quality of the internal audit
in the non-public /private/ sector**

Internal audit in the [non-]public sector						
Methods	Indicators					Object of assessment
	Application of the systematic approach	Application of the disciplinary approach	Responsibility for the application of the method	Possibility for realizing the controlling functions	Development	
1. Method Balanced Scorecard	Yes	Yes	<i>The internal auditors and the leadership, the application of the method is recommended</i>	Yes	<i>The higher authority</i>	Measuring the efficiency of the internal audit
2. Method D. Prawitt and J. Smith	Yes	Yes	<i>The internal auditors and the leadership, the application of the method is recommended</i>	Yes	<i>The higher authority</i>	There is assessed the quality of the internal audit through its effect on financial reporting

3. Application of various auditing approaches	Yes	Yes	<i>The internal auditors and the leadership, the application of the method is recommended</i>	Yes	<i>The method is regulated in the standards on auditing, the application is the responsibility of the management itself</i>	The quality and the efficiency of the internal audit
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In the controlling practice there may be put forward various models of assessing the quality of the internal audit by the researchers studying these issues. We believe that this diversity has both its positive aspects, and that there can also be found different shortcomings. The majority of the “new” models are well-known old models. They have been modified and modernized and there has been included in them some additional factor for analysis. Sometimes the greater the number of models there are applied to the study of a particular problem /in this case the assessment of the quality of the internal audit in the public sector/ , the greater the amount of the various data that can be obtained for comparison and analysis. There can also be determined which of the methods is more effective on the basis of the obtained results, as well as the possible deviation and the scale of the tolerable statistical and mathematical error. The errors in the mathematical – statistical methods do not arise as a result of the model itself, but rather are the consequence of incorrectly grouped and/or gathered information from the prime source. The subjective referral of the facts and the data to some area by the analysts is also a factor for making errors.

On the basis of all that has been presented so far, there can be made the following more significant conclusions with regard to the methods of assessing the internal audit in the public sector:

1. The variety of methods existing in the practice shows that there has not yet been discovered a unified method, which would be applied by all organizations from the public sector.
2. The methods can be applied in combination, they are not mutually exclusive, rather they complement each other. This peculiarity contributes to the constructiveness of internal audit and its continuous improvement.
3. More modern models represent already obsolete models adapted to the contemporary conditions, which are not so effective for the times. They include in their range new objects of analysis, which were not the object of study in the older models. For instance the information about the organization from the stock exchange /having in mind the internal audit of companies, which are not budget organizations/; the duration of the auditing job; the importance and the significance of the organization for the public sector, etc.
4. The considerable differences between the presented methods represent the methodological connection between the constituent structural elements. The participating divergent indicators are determined by the object of assessment, as well as by the technology of the assessment.

Despite the scanty theoretical presentation of the individual methods for assessing the quality of internal audit, in conclusion it can be generalized that the available methods are evidence of the irreversible metamorphic change of internal audit. Through the present article, even though theoretically, it has been proven that the analysis of internal audit can be carried out with the help of different methods, but the choice of application of the respective method is the individual approach on the part of the managers of the organization. For the public sector it is compulsory to comply with the requirements and the rules set out in the standards on internal audit, but the standards do not exclude the application of other methods. From the point of view of the non-public /private/ sector, the only requirement to internal audit is set out in The Law on the Independent Financial Audit, namely the formation of audit committees. This requirement is once again limited and it is targeted only at the companies, which are of public interest and issue securities. In the normative acts there isn't set out a methodology for assessing the quality of internal audit, since each company carries out specific control procedures dependent on the specific character of the activity of the company.

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Abstracts

The assessment of internal audit in the public sector has always been a fundamental issue, since on the basis of the assessment process there are identified many of its distinctive features, such as: quality, efficiency, effectiveness, economy, reliability, etc. In the controlling practice there exist different assessment models, which, due to their specific character, are very often applied incorrectly. For that reason, the aim of the present article is to present systematically the distinctive features of the established methods of assessment of internal audit. The article is of a theoretical orientation towards the variation of the control methods for assessing the quality of the internal audit in the organizations from the public and the non-public /private/ sector. Through induction, deduction and the comparative approach as research methods, the aim is to fulfil the main task of the article, namely to make a comparison between assessment methods. The absence of a piece of practical and applied research work is one reason for limiting the scope of the article and not verifying in detail the purpose of the respective method of determining the quality of internal audit.

Keywords: *method, assessment, internal audit.*