
The profile of the internal auditor in the Romanian banking sector

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Abstract

Internal audit in the banking industry is one of the most debated topics nowadays. The paper's objective is to examine the profile of the internal auditor in the banking industry of Romania. The research design is empirical in nature. The researchers use the development of job announcements for the position of internal auditor in the Romanian banking industry. The announcements are classified according to: language of the job announcement; geographical area of the employer; the internal auditor's tasks; the internal auditor's professional requirements; education and qualification; practical experience; personal attributes; age; salary etc. The results of the research consist in the current profile of an internal auditor in a Romanian bank. The research fills in an important gap in the Romanian academic literature, which lacks studies regarding the internal audit in the banking industry.

Keywords: Internal audit, banking, profile, Romania.

JEL Classification: M42, M48.

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Introduction

The foundation of a highly developed and capital-intensive economy is considered to be a sound banking industry. All economic areas can be significantly affected by disorders in the banking industry, as Hartmann-Wendels (2010) states. In no other sector are the interdependencies and the potential consequences of the individual corporate collapses as far-reaching and unforeseeable as in the financial sector (Țurlea et al., 2010). Similarly to companies from other industries, banks must face challenges such as: attracting outside funding in the context of increasing competitiveness on capital markets, facing competition in labour and product markets, and dealing with managerial self-interest and asymmetric information which potentially lead to corporate governance issues (Bushman, 2014). However, compared to other sectors, banks have more visibility in society and have a higher product involvement (Fatma et al., 2014). The banking sector is unique in other respects, as well as extraordinarily complex, so that additional considerations need to be introduced.

First of all, banks display in their balance sheets a significantly higher leverage, whereas according to Acharya et al. (2014), debt commonly comprises around ninety percent of a bank's capital structure. Further, it is generally considered that banks are inherently less transparent than non-financial firms (Flannery et al., 2004, 2013; Morgan, 2002). This inherent opaqueness presumably comes from the fact that private information unavailable to those outside the bank is the foundation of investment decisions that eventually impact the assets on bank's balance sheets. Consequently, due to high leverage, subsidized deposit insurance, government guarantees and lack of transparency, banks engage in risk taking that may be considered excessive by society (Jensen and Meckling, 1976; Macey and O'Hara, 2003).

Additionally, banks play two critical roles in today's economy, as emphasized by Johannisova and Wolf (2012): creating money and shaping the investment scenery. First, regarding the money creation process, most of the money is currently in circulation because a government, a bank, a business, a family, an individual etc. took out a loan. When repaying this loan, the money supply diminishes by the amount repaid (plus part of the interest), unless the bank provides again a loan of

identical amount (plus part of the interest). Second, banks shape the investment landscape, because they decide whether to grant or to withhold a loan. In this way, they implicitly support certain areas, industries, and projects, which will be the ones chosen to go ahead.

At the same time, banks play a disciplinary role, by assessing firm quality and enforcing creditor rights upon companies (Qian and Yeung, 2014). The research of Ivashina et al. (2009) demonstrates that bank's informational role improves value creation in merge and acquisition activities, while Qian and Yeung (2014) show that inefficiency in banking negatively impacts corporate governance not only through its own failure in monitoring firms but also by diluting the market's monitoring role. More precisely, when a firm can easily access non-disciplinary bank loans, the potential reputation loss and the subsequent higher cost of equity capital become less significant for the controlling shareholder. Hence, the controlling shareholder is more likely to expropriate minority shareholders. In other words, banking, and more specifically efficient banking, is critical for corporate governance.

Banks are particularly important for small firms, as demonstrated by the survey of Aaboen et al. (2006). This survey carried out in the particular case of the high-tech industry shows that firms are likely to have a strong link with banking institutions. As a result of these links, most of the firm's capital supply is from banks, and there are strong ownership links between banks and industry. The study reveals that small high-tech firms consult most frequently private sector organizations (banks) and families.

Caprio et al. (2007) point out the fact that well-functioning banks promote growth. When funds are efficiently mobilized and allocated by banks, the cost of capital decreases, while at the same time capital accumulation and productivity growth are accelerated. Moreover, banks play an important role in governing firms, due to their status of major creditors and occasionally as major equity holders. The research of Krosznera and Strahan (2001) focuses on the active bank involvement in firm management. Their results show that generally bankers activate on the boards of companies in which shareholder – creditor conflicts are likely to be relatively unimportant. Typically, such firms are stable and large and have a low level of short-term financing in their capital structure and a high fraction of

tangible assets, sometimes even prior to the appointment of the banker onto their board.

Given the central role played by the banking sector, and the complexities of bank regulation and governance, banks have been the focus of vast academic literatures, as very thoroughly demonstrated by the recent literature reviews of Bushman (2014) and Beatty and Liao (2014). The literature related to the banking sector comprises several academic fields, applies various research designs, encompasses both theoretical and empirical research, and focuses on within country, as well as across country issues. Bushman (2014) actually claims that the demand by economists and policy makers for powerful, insightful accounting research in banking has probably never been higher than it is in the present times.

In this wide landscape of various studies of the banking sector, the present paper focuses on internal auditing. The purpose of an audit is to compare what is to what should be (Lee, 2008). According to the definition provided by the Institute of Internal Auditors (IIA,), internal auditing is “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.” This definition widens the scope of internal audit to evolve from its traditional compliance auditing to a stage where it is regarded as a value adding service to organizations (Suleiman and Dandago, 2014).

In accordance with the IIA Corporate Governance Model, which is built as an analogy to a four-legged stool, internal audit is one of the “legs” of the stool, additional to the board, the external audit and the management. From all these governance pillars, only the board and the internal auditing have daily and direct contact over the entire year with the company (Gras-Gil et al., 2014). The role of internal auditing is (1) to perform assessments that offer assurance over the proper design and effective operation of governance structures and processes and (2) to provide advice on potential improvements to governance structures and processes. Internal auditing plays the role of assessor, advisor, advocate and catalyst and is therefore one of the key cornerstones of effective corporate governance.

Having in view the importance of the banking system correlated with the significant position of internal auditing in banks, it is surprising that a thorough national and international literature review shows that research is rather scarce in this area. The present paper intends to fill in this gap by constructing the profile of the internal auditor in the Romanian banking system. Choosing the banking sector is first of all due to its importance for the economy, as presented in the above paragraphs. The paper is structured as follows. First of all, the research design is presented. Secondly, a short review of the relevant literature is carried out by the authors, in order to create the context of the results. Third of all, the results of the research are detailed. Last but not least, the fourth section debates the results and draws the conclusions of the study.

1. Literature review

The literature regarding the banking sector includes a variety of studies on the topic of corporate governance. Sharma (2014) assesses the extent of mandatory corporate governance disclosure by banks and finance companies listed on Nepal Stock Exchange. Caprio et al. (2007) assess the impact of the ownership structure of banks and shareholder protection laws on bank valuations while controlling for differences in bank regulations. The typical challenges faced by the banking sector in terms of corporate governance are examined by Kraysenbuehl (2003), who formulates recommendations and warnings. The specifics of corporate governance in the banking and financial services industries are also analysed by Thakor (2007), as well as by Mehran (2004) and more recently, by Turlea et al (2010). The external and internal corporate governance activity observed at Japanese banks over 1985-1996 is investigated by Anderson and Campbell (2004). The Austrian cooperative banking system is in the center of Gorton and Schmid (1999), who test the hypothesis that corporate governance becomes less efficient as the degree of separation of ownership and control increases. Adams and Mehran (2012) address a long-standing gap in the literature by analysing the relationship between board governance and performance using a sample of banking firm data that spans 34 years.

However, at international level, the specific topic of internal audit in the banking sector (as part of corporate

governance) has received less attention in the academia. Gras-Gil et al. (2014) examine whether the structure and characteristics of the internal audit function affect the quality of financial reporting, whereas the sample is made up by the internal audit departments of 47 Spanish banks. An integrated audit approach of rule-based and case based reasoning is applied by Lee (2008) to data of internal audits of a bank. Suleiman and Dandago (2014) establish the extent to which internal audit functions (IAFs) are outsourced by the consolidated conventional banks in Nigeria, addressed in the country as deposit money banks. At national level, the literature on internal audit in the banking industry is also scarce. Relevant are the papers: Stanciu (2010) on the particularities of bank capital adequacy process audit; Mățiș and Palfi (2009) on the evolution of non-performing loans and the role held by the internal audit of banks in limiting them; Rusu and Rusovici (2006) on how the internal auditing is performed in banks; Dobroțeanu and Dobroțeanu (2006) regarding the relationship between internal auditing and internal control in banking sector.

In conclusion, few are the papers written in Romania on internal audit in the banking sector. Even fewer are the empirical ones. The present research aims at filling in this literature gap by adding valuable knowledge on the internal audit function and on profile of the internal auditor as professional in Romania.

2. Research design

The research design is empirical in nature. The research searched the archive of two job portals: www.bestjobs.ro, and www.ejobs.ro. These are the most known and accessed job portals in Romania. Their archive expands over the period 2011-2014, for www.bestjobs.ro and 2005-2014 for www.ejobs.ro. Of interest for the research were only the jobs in the area of internal audit of banks, therefore, the keywords after which the search took place were: "audit" & "bank" and "auditor" & "bank", whereas the audit of information systems has been excluded. Only the title of the job announcement, which contains the position and the employer, has been searched for these keywords.

The sample consists in 17 different banks, out of which only 14 belong to the classification performed by the National Bank of Romania. 12 out of 14 are commercial banks with a majority of foreign capital, and the

remaining two are subsidiaries of foreign banks. Together, their net assets amount to 129.308,70 billion RON, in accordance with the balance sheet as of 31.12.2013. Thus, the authors consider the sample representative, as it corresponds to a market share of 36% in the Romanian banking sector.

The main hypotheses of this empirical research are the following:

- H1: Special qualifications are a condition for the activity as internal auditor.
- H2: A candidate for an internal auditor position should have a university degree in a subfield of economics.
- H3: Good knowledge of the minimal norms on internal auditing belongs to the internal auditor's profile.
- H4: Communication skills are considered to be essential for an employee in internal audit.
- H5: Internal auditors in banks must have availability for business travels.

The choice of these hypotheses was made given previous research. Nowadays, the main knowledge, abilities and competencies required for internal auditors are not limited to just technical skills and knowledge. Harrington and Piper (2016) present the results of the 2015 Practitioner Survey carried out by the Global Internal Audit Common Body of Knowledge – a survey that intends to provide a comprehensive view on the activities and traits of internal auditors worldwide. According to this survey, the members of the internal audit departments studied accounting (57%), internal auditing (42%), finance (32%), business management (27%), external auditing (23%), and economics (22%). This focus is considered by Harrington and Piper (2016) to be relatively narrow, therefore threatening to restrict the skills available to CAEs. According to the survey, CAEs are nowadays seeking to increase skills in analytical/critical thinking (64%), communication skills (52%), accounting (43%), risk management assurance (42%), information technology – general (38%) and industry-specific knowledge (35%).

As highlighted by Stanciu (2016), critical thinking was placed first for good reason. Critical/analytical thinking skills are needed in every step of the internal auditors' work, starting from risk assessment, the selection of audit procedures and ending with the auditors' opinion and recommendations. Secondly, good communication skills are vital, as they help internal auditors to identify

the stakeholders' expectations, to collect the necessary information during audit engagements, to build strong relationships with both colleagues and managers, to clearly communicate their findings and recommendations. The third place is taken by accounting knowledge, which, in most cases, represents the professional background of the internal auditors.

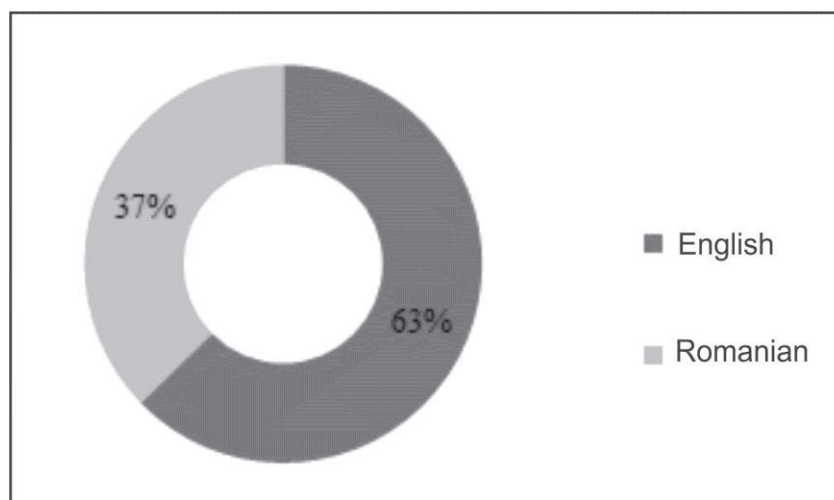
Another relevant study that underlines the importance of the so-called "soft" skills of internal auditors is that of Fanning and Piercey (2014). They ground their research on the findings of the practitioner literature, which indicates that internal auditors often adopt a "policeman approach". Such an attitude can be explained by the fact that, unlike external auditors, internal auditors lack client services incentives. However, this "policeman approach" can lead to negative interpersonal relationships with managers. Fanning and Piercey (2014) find that managers agree more with an internal auditor who is both likable and uses a thematically organized argument, irrespective of the fact that information supports or not the auditor's position. Internal auditing is a "relationship and communications business" in which

information is communicated within an organizational context to influence managers (Dittenhofer et al., 2010). Kachelmeier (2010) explains that companies are not the ones that make accounting decisions, but people are in fact the ones who run the decision-making process. People's decisions are shaped by the behavioural interactions of individuals within the social environment of their firms. On this background, the significance of internal auditors' soft skills becomes obvious

3. Results and discussion

Following this data collection, a number of 67 job announcements resulted. These announcements have been published by 17 different banks, out of which all 17 disclosed their name. With two exceptions, the jobs' location was the capital of Romania, Bucharest, where the head office of the banks is located. The language of 63% of the jobs postings was English, while the rest of 37% of the announcements were in the national language – Romanian (Figure 1).

Figure 1. Language of job postings



Source: Authors' processing.

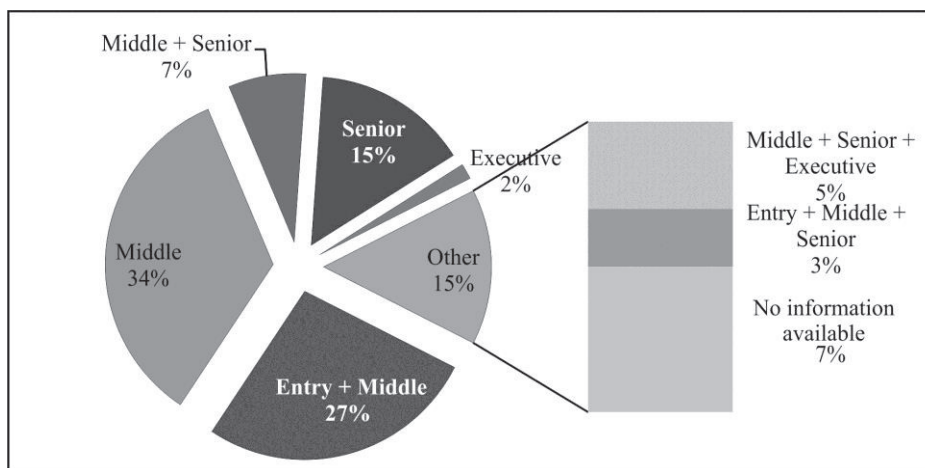
When posting a job, an employer has to choose the required experience level for that job, in order to ease up the search process for the candidate. There are mainly four possible levels: entry (0-3 years of experience), middle (3-5 years), senior (over 5 years)

and executive. 23 out of 67 jobs are middle-level, and 10 are senior-level, only one out of 67 are executive-level, while for five no information is available. The other 28 jobs left are mixed: 18 are mentioned as both entry and middle-level, five jobs

are middle and senior-level, while three are middle, senior and executive. In case of two jobs, all three

levels (entry, middle, and senior) are present (Figure 2).

Figure 2. Experience levels of analysed jobs

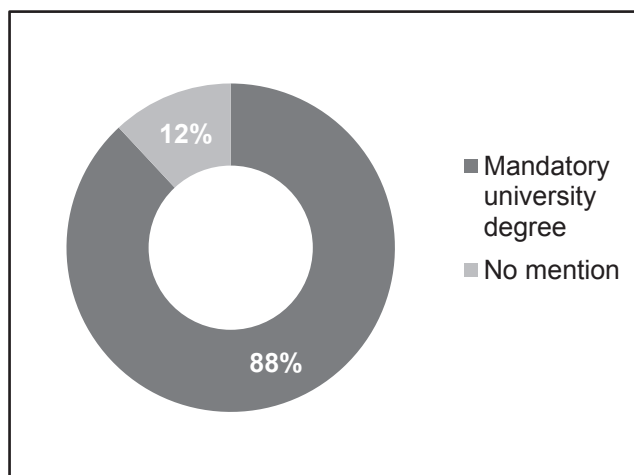


Source: Authors' processing.

In case of seven job announcements, nothing about the qualification requirements was mentioned. In only one case, high-school graduates were accepted. However, according to all of the remaining 59 jobs, a university degree was mandatory. Interesting is the type of major required from the job applicants. 84% of the employers wish to hire a graduate in economics. 24% mentioned a

very precise major such as accounting, finance, banks, or audit. By exception, in one case, the candidate could also be a graduate of legal studies. A majority of 60% job announcements require a university degree in economics, without mentioning anything about the major.

Figure 3. Requirement of university degree



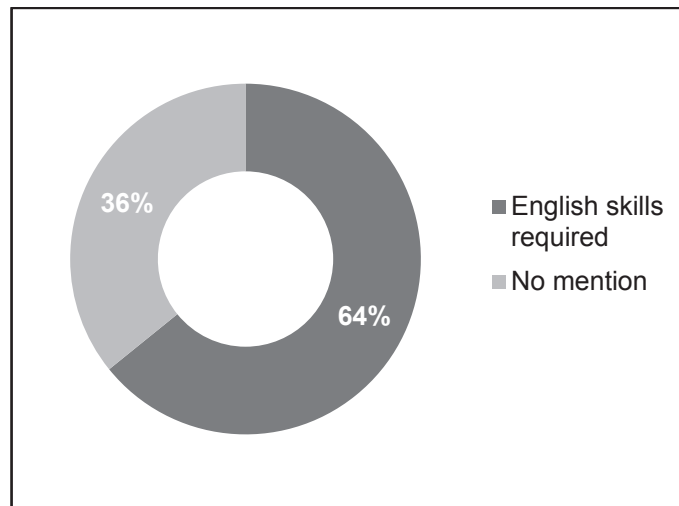
Source: Authors' processing.

In case of a third of the jobs, a further qualification besides the university degree is desired. Such qualifications are the following: ACCA (the Association of Chartered Certified Accountants), CIA (Certified Internal Auditor), CISA (Certified Information Systems Auditor), member of the Chamber of Financial Auditors of Romania (CAFR), Member of the Institute of Internal Auditors (MIIA), Certified Financial Specialist (CFS), Certification in Control Self-Assessment (CCSA), ICAEW Chartered Accountant (ACA), Certified Fraud Examiner (CFE), Certified Financial Services Auditor (CFSA), CECCAR Chartered Accountant (Corpul Experților Contabili și Contabililor Autorizați din

România). In just three out of 23 cases, such a qualification is a must and not only a plus.

More than half (64%) of the job announcements include among the requirements English language skills. 74% of these jobs require specifically advanced English skills. Proficiency is required explicitly both in written and in oral communication by almost half of the employers who expect candidates to know English. 7% say nothing about language skills, but as the majority of these jobs are written in English, the requirement is, in our opinion, somehow intrinsic. No other languages are mentioned as being a plus if known by the candidate.

Figure 4. Explicitly required English skills



Source: Authors' processing.

Solid computer skills are also part of the internal auditor profile. More than half of the jobs (more precisely 58%) require computer skills. The job postings are so not specific about the exact software the candidate should be proficient in. Just about 25% of the announcements mention Microsoft Office and only around 10% refers to Excel.

Regarding the technical knowledge/skills, 12% of the jobs require “accounting competence”, whereas five announcements refer to accounting in general and three mention explicitly International Financial Reporting Standards knowledge. Besides accounting, the internal auditor should also understand the financial, operational, market and credit risk; should

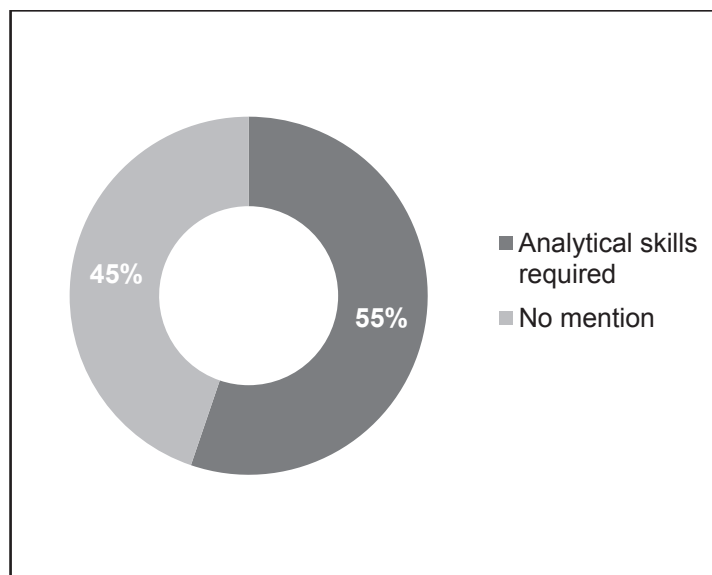
have a good understanding of the banking governance and organization, of its products, and services; should have the knowledge and skills for credit and financial analysis.

“Comprehensive knowledge of auditing practices, procedures and principles”, “ability to design world class audit programs”, “familiarity with relevant professional standards as well as laws and regulations”, good knowledge of International Standards on Auditing – in other words, internal audit knowledge and competence, are a must for about a fifth of the banks. Good risk assessment skills are also among the specific skills that belong to an auditor (they are included in 7% of the jobs).

A quite interesting request for the internal auditor-to-be is the willingness and interest for continuous professional learning and improvement – request made in 12% of the analysed job announcements. Additionally, as the sample investigated in the present research consists only in jobs posted by banks, another requirement is that the candidates are familiar with the legislation typical for the banking sector. Around a third of the announcements (more specifically, 30%) mention this.

Strong analytical skills are without any doubt part of the internal auditor profile in Romanian banks, being mentioned in more than half (namely 55%) of the announcements (Figure 5). The ability to make proper decisions in a timely manner is appreciated by none of the employers in the sample. Strong organizational skills are valued by almost half (52%) of the banks. They expect that the internal auditor is well-organized, proactive, goal-focused, and able to work under pressure in order to meet tight deadlines.

Figure 5. Desirability of analytical skills



Source: Authors' processing.

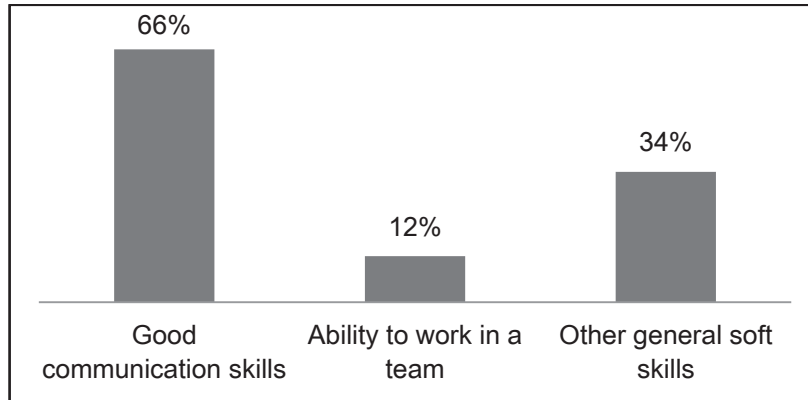
As expected, soft skills are not forgotten when looking for the ideal candidate in an internal audit position (Figure 6). Only 12% of the job announcements include general soft skills such as interpersonal skills, negotiation skills, initiative, proactivity, and motivation. Highly appreciated are the communication skills (66% of the jobs), both written and verbal, followed as well as the ability to work in a team (34% of the announcements).

Surprisingly, there are job postings that explicitly mention the expectation of employers regarding the character of their future employees. Integrity and responsibility, besides the professionalism, the objectivity and the reliability, are highly valued. Integrity

is included in 15 job announcements (representing 22% of the sample), while responsibility in slightly more – 18 postings. Some actually mention that the candidate should be aware of the code of ethics for internal auditors. However, more than half (73%) do not include any reference on the candidate's character.

Important for the banks hiring internal auditors is their availability for business trips. More than a third, namely 37% of the announcements include this condition. Moreover, 7% of the total number of jobs in the sample and 20% of the postings that include the availability to travel also mention that the driver's license is a must.

Figure 6. Interest for soft skills possessed by candidates



Source: Authors' processing.

According to the authors' expectations, no job announcement mentions anything about sex, salary or age.

4. Conclusions

The majority of the hypotheses have been confirmed. Regarding hypothesis H1, according to special qualifications are a condition for the activity as internal auditor, it was shown that in case of 30% of the jobs, a further qualification besides the university degree is a much appreciated advantage.

Secondly, the authors postulated that a candidate for an internal auditor position should have a university degree in a subfield of economics. This hypothesis was also validated. 59 jobs mention the requirement of a university degree and more than two thirds (namely 84%) of the employers specifically want an economist.

The third hypothesis which states that good knowledge of the minimal norms on internal auditing belongs to the internal auditor's profile was only partially confirmed by

the empirical research. However, the percentage of banks that explicitly include this in the job announcements is rather low. Only seven out of 67 jobs require good knowledge of internal audit standards. Good skills of risk assessment seem to be equally important for banks, being mentioned by 7% of the jobs.

According to the international trend in internal audit and, most specifically, in the accounting profession, soft skills are not to be ignored. The authors postulated that communication skills are considered to be essential for an employee in the internal audit department. Indeed, almost two thirds of the jobs posted mention good communication skills, both written and verbal.

Fifth, the research also shown that availability to travel is a must for the internal auditor. More than a third of the sample jobs mention among the job requirements that the internal auditor should accept business trips as part of the work duties. 7% of the announcements express the condition that the candidate has a driver's license, meaning that banks may put at the internal auditor's disposal a business car.

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