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THE IMPACT OF INTERNAL AUDIT ON THE ENTITY'S MANAGEMENT SYSTEM: THE SYNERGY BETWEEN RISK MANAGEMENT AND INTERNAL CONTROL IN THE MICROFINANCE AND LEASING SECTOR

Mirela MOLDOVAN*1

Igor BALAN*2

Abstract: *This research provides a multidimensional investigation into the internal audit function as a driving force for optimizing management systems within non-banking financial institutions, with a specific focus on microfinance organizations and leasing companies. In an environment governed by macroeconomic volatility and stringent prudential regulatory shifts, the structural interdependence between internal audit, enterprise risk management (ERM), and internal control mechanisms forms the cornerstone of corporate stability and sustainability. By applying a methodology rooted in a systematic approach and qualitative-quantitative modeling of the control environment, this study demonstrates a paradigm shift in internal audit: transitioning from mere ex-post compliance checking to a proactive, strategic value-adding function. The research findings highlight the direct impact of audit recommendations on mitigating credit risk, optimizing liquidity risk exposures, and strengthening corporate governance, thereby offering a practical and methodological framework for managers and industry specialists.*

Keywords: *internal audit, risk management, internal control, microfinance, leasing, corporate governance, credit risk.*

JEL Code: *G21, G23, G32, M42.*

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Introduction

In the contemporary economic architecture, the non-banking financial sector – primarily represented by non-banking credit organizations and leasing companies – serves as an indispensable engine for fluidizing capital flows and facilitating access to finance for small and medium-sized enterprises (SMEs) as well as underbanked populations. This segment is distinguished by accelerated operational dynamics, where procedural flexibility, minimal bureaucratic barriers, and decisional swiftness constitute the core competitive advantages over traditional banking institutions. Nonetheless, it is evident that these very attributes of flexibility and celerity generate an intrinsic structural vulnerability. The exposure of these entities to major threats – such as default risk, asset-liability maturity mismatches (liquidity risk), information asymmetry fraud attempts, and operational risks associated with digital transformation – demands a highly rigorous management framework, an observation well-supported by specialized literature (Okaro & Okafor, 2013). Modern management within a non-banking financial entity can no longer operate on linear models focused solely on maximizing the volume of the loan portfolio or leasing assets. An aggressive market share expansion unaccompanied by a fine-tuning of safety filters inevitably degrades asset quality,

*1 *Moldovan Mirela, PhD student, Free International University of Moldova, luimirelamoldovan@gmai.com, ORCID 0000-0002-2070-5759*

*2 *Balan Igor, PhD, Associate Professor, Free International University of Moldova, Email, ORCID: 0000-0001-8605-5640.*

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fosters conditions for hidden financial failure, and leads to a toxic accumulation of non-performing loans (NPLs) (Moldovan, 2021).

The essence and core motivation behind this research stem from the practical necessity to reconfigure risk management frameworks amidst pronounced macroeconomic volatility and tight prudential regulatory changes. The scientific rationale is based on the premise that the survival and sustainable performance of non-banking financial organizations have become directly dependent on the governance system's ability to implement a genuine functional synergy between managerial internal control, enterprise risk management (ERM), and internal audit. Within this complex equation, this study opts to position internal audit as an independent and objective assurance and consulting function (Moldovan & Deliu, 2022). From this perspective, it is critical to move beyond the traditional, restrictive paradigm of a retrospective oversight body and instead establish internal audit as a strategic partner to governing bodies (the Board of Directors and the Audit Committee), capable of holistically assessing risk management processes and providing a forward-looking vision of the entity's resilience against exogenous and endogenous shocks (Boghean, 2019).

The central problem identified in the practical operations of the local corporate sector lies in a fragmented and often purely formal approach to control. Entities frequently implement rigid bureaucratic procedures that merely mimic legal compliance while failing to detect hidden vulnerabilities or emerging risks in a timely manner. We argue that this major deficiency triggers severe collateral issues, such as the inefficiency of qualitative scoring matrices in digital online lending, the vulnerability of the control environment to executive management override, and the lack of mathematical methodologies capable of objectively measuring the resilience of the organizational defensive shield (Dolghi & Petreanu, 2021). Furthermore, we disagree with the practice of maintaining internal audit in a state of methodological passivity, as this limitation deprives leadership of essential early warning signals.

To address these challenges, the content of this paper has been structured in a logical sequence that guides the reader through all defensive tiers of corporate governance. Accordingly, the following sections initially delineate the conceptual framework based on international IPPF standards and the updated Three Lines Model, wherein we argue for the necessity of absolute independence of audit from operational and risk structures. Subsequently, the analysis shifts to the management of specific risks and the required translation of guiding internal control principles into the technical workflows of loan and leasing contract approval, while also highlighting the native limitations of these systems. Furthermore, the study advances through the complex operationalization of the COSO framework in the era of digital finance, where we propose an innovative methodology based on a systematic approach to assess safety filters. The climax of this research introduces a mathematical model for testing qualitative indicators of the control environment, empirically validated through a practical application and comparative analysis between two competing corporate entities. Finally, we consolidate a set of scientifically grounded conclusions and

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strategic recommendations aimed at providing managers with an applicable guide for modernizing management systems and securing the financial stability of the entity.

Literature Review

The structural analysis of corporate management systems highlights remarkable theoretical and practical progress internationally and domestically regarding the conceptualization of control. A major milestone is represented by the shift from traditional, retrospective, and compliance-driven control to integrated governance models. The COSO framework provided an essential tridimensional standard, demonstrating that the control environment, risk assessment, and monitoring cannot operate in isolation, but rather function as interdependent pillars of the same organizational architecture (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2025).

Simultaneously, international professional bodies, such as The Institute of Internal Auditors, reconfigured defensive structures by launching the updated Three Lines Model, establishing a strict prudential demarcation between risk execution and independent assurance (Institutul Auditorilor Interni din România [AAIR], 2017). In the domestic and regional research space, prominent economists adapted these global trends to the realities of emerging financial markets. Consequently, investigations into decision-making risk management and professional ethics emphasize that an organization's stability directly depends on the quality of the organizational culture instilled by leadership (Balan et al., 2021; Boghean, 2019). Furthermore, recent domestic studies made valuable contributions to internal audit planning and the evaluation of corporate subdivisions, demonstrating the intrinsic link between management control and the commercial performance of entities (Cauș, 2010; Moldovan, 2022; Petreanu, 2020).

While this study acknowledges the undeniable value of existing milestones, it identifies a major methodological gap: most available theoretical models are grounded in traditional banking or large industrial corporations, leaving them insufficiently calibrated for the specific dynamics of non-banking credit organizations and leasing companies. This is where our study connects to and advances the literature: while classic literature treats credit risk or non-performing loan (NPL) accumulation through purely linear, retrospective metrics (Moldovan, 2021), our research extends these concepts and adapts them to the era of digital online lending.

We concur with the structural approach promoted in studies analyzing audit as an element of the general management system (Moldovan & Deliu, 2022), yet we find it necessary to move beyond mere qualitative process descriptions. Therefore, our original research supplements the existing theory by introducing a linear aggregation econometric model applied directly to the components of the control environment. Unlike purely normative analyses that merely inventory procedures, our mathematical model empirically tests the resilience of safety filters within two competing corporate entities, demonstrating how an integrity-pillar deficiency can generate an imminent risk of internal fraud, even in the presence of a properly structured organizational chart. We thus achieve a fusion

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between industry prudential standards (such as National Bank of Moldova regulations or IPPF directives) and quantitative modeling tools, empowering internal audit to generate highly valued, predictive recommendations.

Grounded in these realities and methodological gaps, the primary objective of this research is to develop and substantiate an integrated scientific-practical evaluation model for management systems within microfinance and leasing entities by optimizing the synergy between enterprise risk management (ERM), internal control, and the internal audit function. To achieve this macro-structural purpose, the research aims to fulfill a series of specific sub-objectives, beginning with the clear delineation of the independence lines of internal audit through the lens of IPPF directives. Furthermore, the study intends to map the specific financial risks inherent in non-banking lending and leasing operations, while technically operationalizing the COSO framework components within the context of workflow automation. Finally, this investigation focuses on introducing and empirically validating the global metric indicator (ε) for quantifying control environment effectiveness, culminating in the formulation of a set of strategic recommendations designed to guide corporate management in radically modernizing the management system and securing the entity's financial stability.

Methodology

The scientific substantiation of this study demands the design of a rigorous research algorithm capable of ensuring the transition from abstract conceptual analysis to the empirical validation of management systems within the non-banking financial sector. Within this investigation, the algorithm is structured sequentially into three interconnected phases, shifting from the theoretical mapping of risk taxonomy and governance directives to the qualitative-structural analysis of operational filters, and culminating in the mathematical modeling of the control environment. Methodologically, the research utilizes a diversified palette of procedures, among which analysis and synthesis, induction and deduction, the systematic approach, and empirical methods focused on documentary analysis and statistical data sampling stand out.

Analysis and synthesis allowed the deconstruction of the complex corporate governance system into its constituent elements, facilitating an understanding of how daily micro-controls integrate into the risk management macro-structure. Through logical deduction, we translated the general principles of international control frameworks to the volatile specificities of non-banking credit organizations and leasing companies. Within the scope of this study, we consistently opt for the application of the systematic approach, as we believe it moves beyond the limitations of traditional normative frameworks-which merely settle for a bureaucratic inventory of procedures-offering a holistic assessment of the interdependencies between the entity's defensive tiers and enabling the surgical localization of prudential breaches in the field.

Applied materials of high theoretical and practical value were subjected to scientific analysis, consisting of corporate governance treatises, international professional standards,

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prudential legislative acts, and specialized studies from domestic and European spaces. Internationally, the reference pillar is represented by the tridimensional standards developed by American specialists within the COSO committee, whose progressive ideas demonstrated that the control environment and risk assessment are dynamic elements that must be continuously monitored (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2025). This vision is extended by The Institute of Internal Auditors directives, which reconfigure corporate defense through the Three Lines Model, grounding the necessity for the absolute independence of internal audit (Institutul Auditorilor Interni din România [AAIR], 2017).

In the specialized literature of the Republic of Moldova and Romania, the investigation of control systems has registered remarkable progress due to renowned scholars. Landmark studies focused on decision-making risk management, developed by economists such as Boghean (2019), highlight the fact that an organization's stability directly depends on the quality of the organizational culture instilled by leadership. Complementarily, research conducted by Balan et al. (2021) brings to the forefront the progressive idea that aspects of morale, ethics, and professional conduct constitute the true structural resilience of the control environment, discouraging aggressive commercial targeting at the expense of portfolio quality.

Furthermore, works signed by Cauș (2010) and Cauș and Popovici (2011) offer an essential methodological guide for engagement planning and the analysis of the constituent elements of control, while sectorial statistical analyses published by Petreanu (2020, 2021) conceptualize the practical priorities for evaluating audit subdivisions within the local corporate sector. We are in total agreement with these scientific orientations, considering that the fusion between external legislative rigors (Banca Națională a Moldovei, 2018; Legea privind auditul situațiilor financiare, 2017) and internal audit best practices represents the sole path toward modernizing credit management systems.

The transition from qualitative to quantitative assessment was achieved through the use of specific investigation tools, the central piece being a complex structural questionnaire adapted from the prudential diagnostic model promoted in international best practice guides (FinDev Gateway, 2007; Jacques, 2003). The questionnaire was designed to measure the actual assimilation of the compliance culture at the personnel level, with questions strictly grouped according to COSO criteria. Each response obtained from interviewing and analyzing supporting document samples within ERP systems was quantified on a metric scale from zero to three points, thereby eliminating the empiricism and subjectivity of traditional interpretations.

To aggregate the obtained qualitative data and transform them into manageable managerial metrics, within the scope of this research, we propose and apply an econometric model based on the linear aggregation technique. This analytical tool determines the global indicator of control environment effectiveness by calculating the direct mathematical ratio between the arithmetic sum of the scores assigned to the qualitative indicators and the total number of items investigated in the questionnaire. The empirical validation of this investigation tool was performed through a practical application and a comparative analysis

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between two competing corporate entities, demonstrating the model's capacity to locate the weak link within the defensive chain and to generate predictive recommendations with high added value for executive management.

Results and Discussion

A structural analysis of management systems within microfinance and leasing entities necessitates mandatory benchmarking against international reference standards. In the domestic specialized literature, researchers such as Moldovan and Deliu (2022) emphasize that the strategic objectives of these organizations are dictated by a delicate balance between optimizing loan portfolio yields and minimizing default risk. In analyzing this perspective, we concur with the cited authors that the role of internal audit has undergone a radical reconfiguration in recent years, moving beyond the traditional approach oriented exclusively toward ex-post compliance checking and the formal verification of credit files. However, unlike the classic vision of control, we argue that in the non-banking financial sector, audit must evolve into a predictive tool rather than merely serving as a reflector on past errors.

This axiom is globally substantiated by the international standard IPPF 2100 "Nature of Work" (Institutul Auditorilor Interni din România [AAIR], 2017), which explicitly stipulates that the true value and credibility of the internal audit function enhance significantly when auditors adopt a proactive stance, providing new insights and anticipating the impact of future developments. In our view, methodological inertia or the transformation of audit into a mere bureaucratic tool for ticking off procedures-a practice frequently observed within similar entities in the domestic market-nullifies the strategic utility of this function.

Extending this analysis to the sectorial level, a proactive approach in accordance with IPPF directives implies that the evaluations performed should not be confined to the statistical analysis of losses already incurred, but must identify structural vulnerabilities within scoring models before they generate a toxic portfolio. By examining the synthesis of the IPPF provisions (AAIR, 2017), we subscribe to the idea that the internal audit function must be positioned at the highest hierarchical level within corporate governance. Only from this vantage point can it directly evaluate and contribute to the improvement of governance, risk management, and control processes, acting as a genuine catalyst for organizational performance.

To implement an efficient risk management system, The Institute of Internal Auditors (IIA, 2017) widely promotes the updated Three Lines Model. While prudential regulations in the traditional banking sector impose strict risk segregation rules, within the non-banking credit organization and leasing sector, as Moldovan (2022) rightly observes, this methodological framework is often left to the discretion of internal governance, which can lead to a dilution of accountability. For this reason, we consider it imperative to establish a surgical demarcation of executive, monitoring, and independent assurance roles within these companies.

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In our analysis, we observe that the first line of defense-operational management (loan officers, branch managers, and leasing specialists)-operates under a permanent, latent conflict of interest between achieving sales volume targets and respecting prudential risk filters. To counteract this vulnerability, we agree with the structural approach proposed by Căprian and Covali (2017) in their corporate management studies, which maintain that the first line must be continuously monitored by an independent second line, represented by Risk Management and Compliance departments. The role of the second line is to issue rigorous scoring matrices and automatically block subjective field-level decisions through core-banking information systems.

However, the core of the scientific debate arises at the level of the third line of defense-internal audit. While a series of traditional managerial practices in emerging financial markets attempt to subordinate internal audit to executive management (chief executive officers), this study firmly opts for the absolute independence model argued by international IPPF standards. We express our strong disagreement with any form of operational subordination of internal audit because, from our point of view, placing it under executive control negates the very objectivity required to evaluate the first two lines.

As recorded by Moldovan (2022), the strategic impact of internal audit is most pronounced when it reports directly and exclusively to the Audit Committee and the Board of Directors (as structured in Figure 2.1).

Figure 2.1. The integrated Three Lines Model adapted for the microfinance and leasing sector

Source: *Elaborated by the authors based on the IIA and COSO framework*

Therefore, during crisis periods, when sales volume pressures drive the first line to ignore risks and risk management (the second line) fails in its reporting, internal audit is the only structure capable of detecting the methodological anomaly through quantitative tests

on contract samples and restoring the entity's defensive balance before portfolio degradation irreversibly compromises solvency.

The implementation of a management system tailored to the specific profile of non-banking credit organizations and leasing companies demands a profound understanding of the financial and operational risks correlated with this type of business. In his seminal works, Boghean (2019) demonstrates that risk management (enterprise risk management – ERM), approached as an integral component of corporate governance, can no longer be reduced to mere passive monitoring, but rather requires a continuous mapping of both internal and external destabilizing factors. We concur with this systemic vision, arguing that the unique nature of these entities – characterized by accelerated financing processes and increased accessibility for clients who are often unbankable – shapes a specific framework of active vulnerabilities, within which credit risk holds a central and critical position.

Within microfinance companies, as rightly argued by Balan (2015), credit risk manifests with increased intensity because a significant portion of the borrower portfolio consists of small and medium-sized enterprises or individuals who possess neither a solid credit history nor substantial collateral. In the leasing sector, although prudential safety appears to be guaranteed by retaining ownership of the financed asset, this study highlights an often-neglected reality: credit risk takes the form of rapid asset depreciation due to technological or physical obsolescence, as well as significant legal barriers encountered during the asset repossession process. In this regard, we subscribe to the methodology proposed by Cauș (2010) regarding the necessity of constant empirical validation of scoring matrices, considering that classic linear approaches applied in creditworthiness assessment are inefficient in the contemporary non-banking financial environment.

In addition to the strict management of default risk, non-banking financial entities face constant pressure from liquidity risk. Given the legal prohibition preventing these organizations from attracting deposits from the public, their structural funding depends exclusively on equity, corporate bond issuances, or accessing banking lines. In our view, a chronic mismatch between the maturity of assets, represented by fragmented monthly installment collections, and the maturity of liabilities, represented by strict repayment obligations to institutional creditors, can generate immediate operational blockages capable of driving the entity toward a state of technical insolvency.

This vulnerability is significantly amplified by the incidence of operational and fraud risks. Researchers Dolghi and Petreanu (2021) draw attention to the fact that the accelerated digitalization of online lending workflows, while streamlining commercial processes, opens major breaches for cyberattacks and identity fraud. While we share the authors' concerns, we consider it necessary to add a critical nuance: the greatest threat does not originate from the outside, but from within, through human errors in programming automated scoring software algorithms, which can distort the entity's entire financial reporting structure.

Simultaneously, compliance risk acts as an external pressure barrier, driven by the continuous tightening of prudential norms by regulatory authorities (such as the NBM framework in the Republic of Moldova or the FSA/NBR in Romania), particularly in the

field of anti-money laundering (AML/KYC), an aspect analyzed in detail by Zinca and Petroianu (2017).

Enhancing the management structure of a non-banking financial entity is inextricably linked to the implementation of rigorous internal control principles, designed not as an isolated or post-factum action, but as continuous moral and material oversight capable of ensuring full risk command. In this regard, we are in total agreement with the comprehensive approach advocated by Moldovan and Deliu (2022), who maintain that the internal control system should not be viewed as a static list of procedures, but as a dynamic organism embedded within daily processes. From our point of view, internal auditors, in their governance evaluation missions, have a professional obligation to validate whether the managerial control architecture is built upon stable methodological pillars.

A primary pillar is represented by the principle of structural organization, which requires configuring a clear organizational chart and developing internal procedures that precisely delineate responsibilities, delegated competencies, and information channels, while explicitly prohibiting the accumulation of incompatible functions (Căprian & Covali, 2017). Within microfinance and leasing companies, we consider the application of this principle to be critical, as it blocks errors or fraud attempts by separating the sales and client acquisition function from the financial analysis and credit exposure approval function.

Significant importance attaches to the principle of integrated self-control, which demands the inclusion of automated mutual verification and cross-correlation mechanisms within daily routines. Studying the practical implementation of operational filters, we subscribe to the scientific conclusions formulated by Arena and Azzone (2009), who demonstrate that within the non-banking credit and leasing company segment, automating cross-checks within ERP systems heavily reduces dependence on the human factor and prevents prudential calculation errors, serving as a central pillar for maintaining resilient corporate governance. This principle is complemented by that of adaptability and permanence, which requires that established rules be applied consistently while possessing high structural flexibility to instantaneously absorb new prudential regulations in the field.

From a patrimonial perspective, internal control must respect the principle of procedural universality, covering all hierarchical levels and all active and passive elements of the organization, as well as the principle of information verifiability, which guarantees that any financial transaction can be traced back in the system to the primary supporting document. Nonetheless, in the non-banking financial environment, all these rules must correspond to the principle of proportionality and harmony. In our view, analyzed through the lens of market realities, we agree with the warning issued by Căprian and Covali (2017) that excessive bureaucratization of the internal control process will negate the primary competitive advantage of non-banking credit organizations, namely the speed and efficiency of processing loan requests, thereby generating commercial losses

Despite a rigorous design based on the stated principles, top management and governance specialists must realize that the internal control system cannot offer an absolute guarantee of organizational success, but only reasonable assurance. Within our research, we

emphasize the importance of recognizing the inherent limitations of the system, an aspect heavily debated in specialized methodological guides, as ignoring them can compromise even the most sophisticated safety filters. Among these restrictive factors, human errors generated by fatigue, carelessness, misinterpretation of procedures, or flawed professional judgments during the analysis of leasing files represent a permanent threat to portfolio quality.

Another major structural limitation is the possibility of circumventing controls through secret agreements or collusion between employees from different departments or between a loan officer and an external applicant, a phenomenon that completely nullifies the efficiency of segregation of duties. Likewise, the risk of executive management override, which may dictate ignoring scoring filters for certain strategic clients to report high sales volumes, constitutes a critical internal security breach. Lastly, the cost-benefit criterion represents a pragmatic barrier, as the cost of implementing a new automated control tool should not exceed the potential financial loss that the control is designed to prevent.

In the presence of these vulnerabilities and native limitations, we firmly opt for a dynamic approach to governance in which the role of internal audit becomes crucial for the survival of the non-banking financial entity. Internal audit does not implement controls, nor does it execute them on a routine basis; rather, it is the function that critically examines their effectiveness. We express our disagreement with conservative managerial views that consider audit a redundant function to internal control. From our point of view, the impact of audit on the management system manifests precisely through applying stress tests to transaction samples, bringing to light those moments when internal control failed due to human fatigue, obsolete procedures, or abusive executive directives, thereby transforming internal control from a static structure into a self-regulating mechanism.

For specialists and managers within the non-banking credit organization and leasing sectors, the COSO (*Committee of Sponsoring Organizations of the Treadway Commission*) framework represents the gold standard for structuring and evaluating corporate defense systems. Defined methodologically as an ongoing process coordinated by the Board of Directors and executed by the entire personnel, this framework aims to provide reasonable assurance regarding operational efficiency, financial reporting accuracy, and full regulatory compliance. Within the contemporary non-banking financial ecosystem, we argue that the evaluation of this framework by internal audit acquires a unique value, forcing a transition from formal auditing to a deep analysis of the resilience of the five interdependent components.

The starting point in this analysis is represented by the control environment, which constitutes the ethical and structural foundation of the entire organization. The internal auditor must evaluate this component not only through the documentary analysis of ethical codes but by directly surveying the organizational culture of the employees. The second component, risk assessment, demands the existence of dynamic internal mechanisms to detect threats. In the leasing sector, as shown by the research conducted by Dolghi (2012), the rapid technological obsolescence of financed equipment or price volatility in the secondary market represents major risks that directly impact collateral value. From our point of view, in the presence of these realities, internal audit is obliged to critically analyze

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whether risk management utilizes calibrated statistical models to update scoring matrices under conditions of economic uncertainty.

Control activities, as the third COSO component, comprise the totality of policies, procedures, and authorizations designed to mitigate risk exposure. In the context of online lending digitalization, we opt for reorienting the audit's attention toward testing IT general controls and software algorithms that automatically block suspicious transactions. This dimension directly correlates with the fourth component—information and communication. Decisional effectiveness depends on the existence of rapid data flows, and here we subscribe to the arguments presented by Ciuhureanu (2016) regarding the importance of accounting information transparency for executive management, which allows field officers to report market anomalies directly to the central risk structure.

The final component consists of system monitoring, a process focused on assessing internal control performance over time. It is within this sphere that the strategic impact of internal audit as an independent function materializes. While executive management holds an operational role, internal audit is the only function with the necessary status to independently monitor whether all other four COSO components operate synchronously. We express our disagreement with the tendency of certain entities to assimilate the monitoring performed by audit into simple managerial self-control; from our point of view, the independence of direct audit reporting to the Audit Committee is what provides the necessary impulse for the continuous recalibration of the entity's defensive shield.

To enhance the efficiency of prudential supervision within microfinance and leasing entities, the implementation of a robust reference framework for evaluating internal control must be grounded in a clear scientific methodology. In specialized literature, the analysis of management systems highlights a multitude of approaches used for diagnosing organizational structures, including functional, normative, or operational frameworks. For the non-banking corporate financial sector, within the scope of this study, we consistently opt for the application of the systematic approach, as we believe it perfectly aligns with the integrated architecture of the COSO model and offers a holistic assessment of the overall management system’s effectiveness, thereby enabling the precise localization of procedural breaches.

The systematic evaluation cannot be carried out empirically; rather, it demands the establishment of clear and objective criteria, directly correlated with the requirements of the international internal auditing standard IPPF 2210 „Engagement Objectives”. In the absence of predefined criteria set by the entity's management, we consider that internal auditors have a professional obligation to develop them in cooperation with governance structures, grouping them into three major categories.

The first category comprises internal criteria, represented by the entity's bylaws, the corporate governance code, specific lending or scoring regulations, accounting policies, and internal anti-fraud procedures.

The second category is formed by external criteria, which include prudential legislative acts issued by sectorial regulatory authorities, such as the Law on the Audit of Financial Statements, Central Bank regulations, and Anti-Money Laundering (AML) frameworks. We

agree with the rigor of these legislative acts, considering that their strict enforcement constitutes the core foundation for the stability of any financial entity.

The third category includes best practices, derived from international guidelines, recommendations of financial supervisory committees, and professional guidance from The Institute of Internal Auditors.

To operationalize this approach within the environment of non-banking credit and leasing organizations, the internal audit process must sequentially follow three distinct and interconnected operational stages.

The first stage aims at obtaining a comprehensive and clear overview of the management system. In this regard, we subscribe to the methodological arguments formulated by Cauș (2010), according to which this initial step necessarily involves mapping the strategic objectives of the entity and compiling an exhaustive inventory of the internal and external regulatory framework applicable to lending or leasing financing activities.

The second stage is dedicated to the content analysis of the system's constituent elements. We agree with the operational model proposed by Cauș and Popovici (2011), which focuses on the precise identification of the control structures participating in operational workflows (compliance officers, risk managers, field teams) and on determining the actual manner in which these actors interact and delineate their prudential duties.

Finally, the third stage consists of the technical evaluation and actual testing of the effectiveness of safety filters. At this level, we share the empirical vision of Petreanu (2021), in the sense that internal auditors must meticulously select working tools, apply structured questionnaires, extract and test representative samples of contracts from the ERP system, and calculate metric performance indicators.

We argue that this methodological sequence ensures a definitive transition from simple formal verifications to a deep, risk-based analysis capable of generating high value-adding recommendations for executive management.

The control environment constitutes the foundation of the corporate governance system, setting the tone of the organizational culture and defining the degree to which personnel are aware of prudential rules. In this regard, we are in total agreement with the views expressed by a number of researchers, who reveal that a rigorous assessment of this pillar by internal auditors is achieved by correlating documentary analysis with a direct survey of the compliance culture. To eliminate the subjectivity factor inherent in traditional qualitative evaluations, within the scope of this study, we propose the use of a metric quantification tool via a structural questionnaire, with questions strictly grouped according to the COSO criteria established in the international standards developed by American specialists.

A numerical score on a scale from 0 to 3 points is assigned to each response obtained from the audit investigations. The global effectiveness of the control environment (ε) is mathematically calculated using a linear aggregation model, defined by the ratio between the sum of the scores assigned to each analyzed indicator and the total number of items evaluated in the questionnaire:

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$$\varepsilon = \frac{\sum_{i=1}^{n} S_i}{n} \quad (1)$$

Where S_i represents the score assigned to each qualitative indicator, and n represents the total number of questions in the questionnaire. A global score between 2.00 and 3.00 indicates an effective control environment, while a result located in the 1.00 – 1.99 range places the control environment in an inefficient or vulnerable zone.

To empirically validate the proposed model, it was tested within two entities from the non-banking financial corporate sector, generically designated as Entity A (characterized by rigorous risk management) and Entity B (a company with a traditional structure, focused on increasing sales volume). Our methodological approach is grounded in comparative studies recently developed in the domestic specialized literature, expanding the applicability of metric indices to the level of financial risk structural analysis. The results are detailed in the qualitative matrix presented below:

Table 1. A comparative analysis of two corporate entities

Control Environment Components and Qualitative Evaluation Indicators	Entity A Score	Entity B Score
I. Communication and enforcement of integrity and ethical values		
1. Is there an approved Code of Ethics applicable to all employees?	3	0
2. Are employees regularly trained and aware of the Code of Ethics provisions?	3	0
3. Are procedures for investigating and sanctioning ethical breaches operational?	3	0
4. Do management and personnel respect anti-fraud and anti-corruption legislation?	3	3
II. Commitment to competence and Human Resources policies		
5. Are there written procedures to evaluate the competencies required for each post?	3	3
6. Does management hold verified qualifications in managing specific risks?	3	3
7. Are clear and secure recruitment filters implemented?	2	2
8. Is there an active policy for continuous training and professional promotion?	3	0
III. Participation of those charged with governance (The Board)		
9. Are the Board's roles defined in implementing whistleblowing mechanisms?	3	3
10. Does the Board regularly review internal control reports?	3	2
11. Is the interaction workflow between committees transparent and regulated?	3	3
IV. Executive management's operating style		
12. Is management directly involved in risk assumption and monitoring?	3	3
13. Are major decisions regarding financial reporting made collectively?	3	3
V. Organizational structure and assignment of authority		
14. Is the organizational chart officialized and approved by statutory bodies?	3	3
15. Are job descriptions developed, updated, and communicated?	3	3
16. Are there clear lines of reporting and avoidance of conflicts of interest?	3	3
GLOBAL EFFECTIVENESS SCORE (ε)	**2.93**	**2.13**

Source: *Elaborated by the authors*

The comparative analysis reveals that although both organizations achieve a global score within the prudential effectiveness range ($\varepsilon > 2.00$), the mathematical model identifies hidden structural vulnerabilities in the case of Entity B. While Entity A ($\varepsilon = 2.93$)

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demonstrates a solid culture of compliance, Entity B (ε = 2.13) records zero scores (0) regarding the ethical dimension and human resource training policies.

We argue that this major deficiency generates a substantial operational risk of internal fraud. In this context, we subscribe to the conclusions formulated by Romanian and domestic economists (Balan et al., 2021; Căprian & Covali, 2017; Ciuhureanu, 2016; Moldovan, 2022; Moldovan & Deliu, 2022; Zinca & Petroianu, 2017) regarding the necessity of a risk-based audit, which moves beyond a simple global average and precisely locates the weak link, forcing the executive management of Entity B to urgently intervene with corrective measures centered on the integrity pillar.

Conclusions

A multidimensional investigation into management systems within microfinance and leasing entities confirms that implementing a high-performance internal audit function has ceased to be a mere choice for bureaucratic compliance; rather, it has become a critical driver for corporate survival and sustainability, a view widely supported by financial management specialists. Within a volatile non-banking environment, organizational defense tiers cannot operate in isolation because the functional synergy between internal control, Enterprise Risk Management (ERM), and internal audit acts as an integrated protective shield. In our view, which is grounded in international best practices, this alignment has the capacity to transform strict prudential regulations from an external administrative pressure into a strategic competitive advantage in the lending market, thereby ensuring process fluidity and asset security.

Empirical research conducted through a systematic approach and the mathematical modeling of qualitative indicators reveals that formal evaluations or simple linear aggregations can mask severe structural vulnerabilities within the COSO framework. As demonstrated in the comparative analysis, an entity may display an ostensibly satisfactory global score from an organizational perspective, yet face an imminent risk of financial failure due to a neglected ethical culture or the absence of anti-fraud filters in human resources. We are in total agreement with the warnings issued by economists within both domestic and European research circles that fine-tuning material and moral continuous oversight instruments represents the sole guarantee for safeguarding assets against portfolio quality degradation and the accumulation of non-performing loans (*NPLs*).

Based on the conclusions derived from this scientific research, we consider it necessary to formulate a set of strategic recommendations with immediate practical applicability for specialists and managers within the non-banking credit organization and leasing sectors. First, we firmly opt for a reconfiguration of operational priorities through a definitive transition toward risk-based auditing, which involves abandoning exhaustive retrospective verifications for the sake of formal compliance and focusing audit resources on areas with the maximum probability of default and operational fraud. This direction, fully validated by experts in banking risk fields, demands the periodic evaluation of automated

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online scoring algorithms, the monitoring of leased asset depreciation, and strict adherence to AML/KYC prudential norms.

Second, we consider it imperative to digitalize and automate internal control metrics by integrating qualitative risk assessment chapters and structural questionnaires directly into the entity's core-banking and ERP information systems, a methodological solution strongly supported by sectorial statistical analyses. This step will allow the real-time calculation of control environment effectiveness indicators (ε), providing executive management with an *Early Warning System* before operational vulnerabilities materialize into actual asset losses.

Third, the entity's corporate governance must secure and guarantee the structural independence of defense lines by maintaining a rigorous separation of duties between operational personnel and risk monitoring structures, thereby completely eliminating the possibility of executive management override. We express our disagreement with the ambiguous reporting practices encountered in some organizations and support guaranteeing absolute independence for internal audit by ensuring a direct and exclusive communication channel to the Audit Committee and the Board of Directors, which effectively frees audit decisions from the pressures of commercial sales targets.

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