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# EXTERNAL PUBLIC AUDIT, A TOOL TO IMPROVE THE DECISIONS BY THE MANAGEMENT OF PUBLIC FUNDS FOR SUSTAINABLE DEVELOPMENT

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**Abstract:** *The topic of the study tries to answer the question, „Is external public audit a lever to identify vulnerabilities in the way how the public funds for sustainable regional and local development are managed?” In this respect, the approach started from the analysis and re-treating of the disfunctions found by the Supreme Audit Institution in the management of public funds of the ministry under review. Thus, with the help provided by the global diagnostic grid of the public funding management of the ministry, the disfunctions were addressed in the hierarchical order of the entities which receive public funds and also according to the typology of the deviations. The disfunctions were re-treated on the basis of the trinomial criterion of financial accounting - budget execution - internal management control system.*

**Keywords:** *external public audit, financial accounting, budget execution, internal control, sustainable development*

**JEL Classification:** *M4, G3, H7*

## 1. Introduction

In Romania, the external public audit is carried out annually, in the form of a financial audit at the main authorising officers, and at least once every three years at the other authorising officers, as well as at the public entities in which the state or the administrative-territorial units are major shareholders.

As a result, the external public audit missions carried out between 2015 and 2019, at the ministry under review (MDRAP), are of a limited nature due to the fact that not all entities under the ministry’s subordination, coordination or authority were included in the audit each year, so that disfunctions in the management of public funds could have been found.

In this context, this scientific approach identified the financial and compliance audit missions that were carried out during the period under review and made an overall diagnosis of the system of the public funding management of the ministry under review.

## **2. Problem Statement**

The external public audit, through its specific activities, is a tool for improving decisions related to the management of public funds that are intended for sustainable development. Thus, the purpose of using the criteria for assessing the impact of the disfunctions identified by the external public audit was to demonstrate the vulnerability of the current information-accounting system in the management of the public funds that allocated for regional and local development.

The interpretation of the results obtained from the impact assessment of the identified disfunctions was based on a series of inequations and was completed by determining and interpreting the indicator "Degree of disfunction impact assessment".

## **3. Research Question**

The topic of the study tries to answer the question „Is external public audit a lever to identify vulnerabilities in the way how the public funds for sustainable regional and local development are managed?“ In this respect, the approach started from the analysis and re-treating of the disfunctions found by the Supreme Audit Institution in the management of public funds of the ministry under review.

The vulnerability of the public funding management was assessed through the value of the indicator "Degree of disfunction impact assessment" and its significance, in the context of validating or invalidating the research hypothesis "Is external public audit a lever to identify vulnerabilities in the way how the public funds for sustainable regional and local development are managed?"

## **4. Research Methods**

The assessment of the deficiencies the external public audit found while being carrying out by the Supreme Audit Institution went through the steps set out in the evaluation grid method, according to the literature in the field (Niculescu, 2003).

Thus, the degree assessment of the impact of the disfunctions ( $I_i$ ) was determined as the multiplication of the score given to the assessment criteria ( $N_i$ ) and their related significance coefficient ( $Q_i$ ), in relation to the nature of the disfunction (Niculescu, 2003).

The formula for calculating the disfunction impact rating ( $I_i$ ), which was used in the analysis, was as follows:

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$$I_i = \sum N_i \times Q_i$$

$N_i$  = score given to the assessment criteria  
 $Q_i$  = significance coefficient of the assessment criteria  
 $i$  = kind of disfunction found that was found at a consolidated level

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The assessment of the disfunctions was made on a scale from 1 to 3, in relation to their impact on the audited financial statements (Niculescu, 2003).

## 5. External Public Audit, a tool to improve the decisions by the management of public funds for sustainable development

The average value for the 2015-2019 period was determined on the basis of the value of the indicator "Degree of disfunction impact assessment", as shown in the table below:

**Table 1. Assessment of disfunction impact within period 2015-2019**

Financial year	Indicators ( $I_i$ )	Value of disfunction impact	Significance of disfunction impact
2015	$I_{2015}$	1.2183	Medium vulnerability
2017	$I_{2017}$	2.8315	High vulnerability
2018	$I_{2018}$	3.0000	High vulnerability
2019	$I_{2019}$	2.3260	High vulnerability
<b>2015-2019</b>	$I_{\text{medium}}$	<b>2.3439</b>	<b>High vulnerability</b>

*Source: data processed by the author*

The average value of the indicator "Degree of disfunction impact assessment" ( $I_{\text{medium}} = 2.3439$ ) shows that the ministry under review has a high vulnerability in terms of the public funding management for regional and local development. This phenomenon was found and quantified by the external public audit in terms of financial and compliance audits.

The value of the indicator "Degree of disfunction impact assessment" by domains, i.e. in financial accounting, budget execution, and managerial internal control system, was determined on the basis of the following data, by reference to the nature of the identified disfunction:

**Table 2. Disfunctions re-treated from the 2015-2019 period**

Name of audited entity during the period 2015-2019	Amount of disfunctions identified between 2015 and 2019			Total amount of disfunctions 2015-2019
	Financial accounting	Budget execution	Internal control system	
MDRAP	22	19	12	53
ANRSC	12	8	11	31
ANL	22	11	18	51
ISC	10	5	9	24
ANCPI	20	10	9	39
CNI	8	8	6	22
<b>Total 2015-2019</b>	<b>94</b>	<b>61</b>	<b>65</b>	<b>220</b>

*Source: data processed by the author*

The analysis of the dysfunctions reported from 2015 to 2019 revealed that, out of the 220 deviations that the external public audit found, 94 disfunctions were of a financial accounting sort, 61 deviations were of a budgetary accounting sort, i.e. the budget execution process, and 65 disfunctions were of an internal control system kind – the internal control system implemented within the ministry under review, including the subordinate entities, under its coordination or authority.

Thus, the impact of disfunctions in the financial accounting was quantified on the basis of the following information:

**Table 3. Financial accounting disfunctions in the 2015-2019 period**

Disfunction impact assessment criteria on financial accounting in the 2015-2019 period	2015-2019	
	$N_i$	$Q_i$
MDRAP	2	23.40%
ANRSC	1	12.77%
ANL	2	23.40%
ISC	1	10.64%
ANCPI	2	21.28%
CNI	1	8.51%
<b>Degree of impact assessment of financial accounting disfunctions - <math>I_{CF}</math></b>	<b>1.6808</b>	<b>100.00%</b>

*Source: data processed by the author*

The financial accounting disfunction impact assessment,  $I_{CF}$ , was 1.6808 and it was determined on the basis of the following calculation:

$$I_{CF} = 0.468 + 0.1277 + 0.468 + 0.1064 + 0.4256 + 0.0851 = 1.6808$$

The value of 1.6808 shows that the ministry's financial accounting was highly vulnerable during the 2015-2019 period due to the disfunctions the external public audit identified.

The impact of the disfunctions in the budgetary accounting was quantified based on the following information:

**Table 4. Budgetary accounting disfunctions in the 2015-2019 period**

Assessment criteria for the impact caused by disfunctions on budget implementation in the 2015-2019 period	2015-2019	
	$N_i$	$Q_i$
MDRAP	2	31.15%
ANRSC	1	13.11%
ANL	1	18.03%
ISC	1	8.20%
ANCPI	1	16.39%
CNI	1	13.11%
<b>Degree of impact assessment of budgetary accounting disfunctions - <math>I_{EB}</math></b>	<b>1.3114</b>	<b>100.00%</b>

*Source: data processed by the author*

The assessment degree of the budgetary accounting disfunctions' impact, noted  $I_{EB}$ , had a value of 1.3114 and it was determined on the basis of the following calculation:

$$I_{EB} = 0.623 + 0.1311 + 0.1803 + 0.082 + 0.1639 + 0.1311 = 1.3114$$

The ministry's budget execution activity was medium vulnerable during the period under review as a result of the disfunctions the external public audit identified. Vulnerability was determined on the basis of the impact assessment value of the disfunctions in the budgetary accounts of 1.3114.

The impact of the disfunctions found in the functioning of the internal control management was quantified on the basis of the following information:

**Table 5. Internal control management disfunctions from 2015 to 2019**

Assessment criteria for the impact caused by disfunctions in the internal control management in the 2015-2019 period	2015-2019	
	$N_i$	$Q_i$
MDRAP	1	18.46%
ANRSC	1	16.92%
ANL	2	27.69%
ISC	1	13.85%
ANCPI	1	13.85%
CNI	1	9.23%
<b>Degree of impact assessment of disfunctions in the internal control management - <math>I_{SCIM}</math></b>	<b>1.1384</b>	<b>100.00%</b>

*Source: data processed by the author*

The assessment degree of the disfunction impact in the operation of the internal control management,  $I_{SCIM}$ , was of 1.1384 and it was determined on the basis of the following calculation:

$$I_{SCIM} = 0.1846 + 0.1692 + 0.5538 + 0.1385 + 0.1385 + 0.0923 = 1.1384$$

The internal control managerial, which was designed and implemented within the ministry, had a medium vulnerability during the period under review due to the disfunctions that the external public audit identified.

In terms of the overall financial-accounting activity that was subject to external public audit, for the period under review, the impact of the identified disfunctions was quantified on the basis of the following information:

**Table 6. Disfunctions of the current accounting information system during the 2015-2019 period**

Disfunction impact assessment criteria of the current accounting information system, 2015-2019	2015-2019	
	$N_i$	$Q_i$
MDRAP	2	24.09%
ANRSC	1	14.09%
ANL	2	23.18%
ISC	1	10.91%
ANCPI	1	17.73%
CNI	1	10.00%
<b>Degree of disfunction impact assessment - <math>I_{Total}</math></b>	<b>1.4727</b>	<b>100.00%</b>

*Source: data processed by the author*

The impact assessment degree of evaluation of the disfunctions that were found in the current accounting information system, noted  $I_{Total}$ , was of 1.4727, and it was determined on the basis of the following calculation:

$$I_{Total} = 0.4818 + 0.1409 + 0.4636 + 0.1091 + 0.1773 + 0.10 = 1.4727$$

The financial-accounting activity of the ministry that manages the public funding allocated to regional and local development was highly vulnerable during the period under review due to the disfunctions the external public audit identified.

## 6. Conclusions and perspectives of scientific research

The analysis of the external public audit from 2015 to 2019 showed that, following the assessment of the disfunctions' impact in the financial-accounting activity of the ministry that was the subject of the scientific research, the vulnerabilities of the current information-accounting system, that manages the public funding for sustainable development, were identified.

The conclusion resulting from the application of the grid for the global diagnosis of the management of public funding for regional and local development, by establishing the average value of the indicator "Degree of disfunction impact assessment", validates the research hypothesis "Is external public audit a lever to identify vulnerabilities in the way how the public funds for sustainable regional and local development are managed?".

In the literature, in terms of the international regulations related to the external public audit by Supreme Audit Institutions, there are guidelines on the evaluation of public policies, namely INTOSAI GOV 9400 "Guidelines on the evaluation of public policies", renamed "Guide 9020, Public Policies Assessment (2019)", which aims to improve them, including in the implementation process, so that strategic development objectives can be implemented. There are also limitations in the assessment of a public policy. They are mainly generated by the mandate given to the Supreme Audit Institution, in the sense of going beyond or not going beyond it, which is a matter of 'political discussion'.

The experience of the Supreme Audit Institutions in evaluating public policies has shown that an independent approach to the evaluation of public policies, with the aim of an independent study, enables citizens and other stakeholders to form their own opinion on the public actions. The decision-makers are also able to make relevant decisions on whether to continue, correct or abandon a public policy based on scientific evidence, *i.e.* objective analyses and recommendations.

From the external public audit point of view, the assessment of a public policy can be carried out ex-ante, at the same time as its implementation or ex-post. However, practice has shown that such evaluations are usually carried out ex-post, less at the same time as the implementation of a public policy, and not in any way ex-ante. The arguments in favour of an ex-post evaluation are mainly based on the existence of sufficient data to assess long-term effects and indirect effects, which are essential components of a meaningful evaluation. All these approaches are future research directions if external public audit will focus its activities on the evaluation of public policies.

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