

THE PROSPECTS OF THE INTERNAL AUDIT IN IMPROVING MANAGEMENT OF PUBLIC INSTITUTIONS

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Abstract

Internal audit regardless of the sector carried out examinations and evaluations on all components and activities of an organization or public entity shall evaluate the manner in which it is, and use funds, whilst respecting the principles of efficiency and effectiveness and provide management information and opinions of independent with regard to achieving results and the management of resources used.

Internal audit, whose implementation is a recent contribution to the development of organizational culture and improve the functions of the other structures within the entity. The practice of internal auditing of the public entities do not provide at present an image consistent with this approach, different trends at the level of public institutions.

Internal audit activities which it conducts and qualifications is the tool that can make management of tasks and on leveraging the proper use of public funds.

Practice in the field of internal auditing in Romania, so far has been centered on compliance with legal regulations compliance activities, which had aimed to compare economic and social realities of organizations, with the proposed reference system.

Keywords: accreditation, internal audit, internal control, internal assessment, external assessment method, risk management, insurance services, consultancy services, system of cooperation.

Clasificare Jel: M00; M41; M42

General considerations

Internal audits since its inception focused on accounting issues, has become a powerful tool to improve the management of risks, control and management. Internal audit also appeared in objective currently has needs to inform the management of the organization with regard to disfuncțiile of the Organization, to carry out investigations and collect evidence to support the findings, but mostly to give assurances that all good internal control measures have been taken and such organization has achieved the objectives set.

Under modern constitutional State, the internal audit function is regarded as one of the elements which ensure \"proper management of funds\". Internal audit is an effective instrument in providing accurate, and by the means which are available to remove the default handling of information and possibilities of making wrong decisions and provide decision makers with accurate information as possible on the entity that administers.

In this context, due to the volume and complexity of the activities carried out within the Organization, internal audit is a public entity that provides management, based on the assessments and analyses carried out, or advice on the effectiveness of risk management and internal control system and, at the same time, it assists in the establishment of the monitoring instruments, by assessing the effectiveness and helps them improve their continues.

At the same time, in order to improve the processes of management entities, in all their complexity, involving knowledge and application of the principles of modern management in terms of performance and competitiveness, internal audit plays a major role in supporting governance and, in general, any act of leadership.

The peculiarities of the internal audit in public entities

Viewed as a function within the institution of public internal audit is not a managerial activity, but an activity that takes place on the next manager in order to help and assist in its management.

The Mission of the public administration institutions is usually more complex than private organizations mission, as determined by the increasingly complex needs of citizens, given that the State's financial resources are increasingly limited, and the entity depend more and more of the appropriations from the State budget.

Internal audit, which represent a balanced and efficient channel for additional information, independent and objective for the management of the

Organization, shall draw up the main objectives of the work depending on the development programmes and the requirements needed to meet them, and the consistency with which they are provided and used public funds or appropriations from budget, to achieve them.

In this context, the internal audit has some peculiarities that confers responsibility and authority for the management of the services provided, as follows:

- the method and instruments that guarantee the effectiveness, standards and rules of conduct concerning integrity, objectivity and confidentiality, international standards and mandatory regulations applied and respected;
- regulatory framework for the internal audit shall include provisions that ensure the independence of the Office concerned to direct subordination: the highest level of decision and procedure to obtain advice on the appointment or dismissal of the internal auditors;
- objectivity provided by regulations relating to interfering in the activities of the internal auditors and the audit, as well as the internal auditors of neafectarea constraints and various obligations of examination and in their thinking.

However, in practice there are any differentiation in the pursuit of the internal audit, and embodied by: neimplementarea function at the level of all the different public institutions, knowledge owned by the Auditors in carrying out the same kind of activities, the absence of development programmes for improving the quality of the internal audit activity, organized bins unworkable. They make it impossible to implement the functions of internal audit and compliance with specific procedural framework.

Prospects for the improvement of the activities of the internal audit organizations

Internal audit activities should be undertaken in order to improve the activities of the organization in creating value and can be summarized as follows:

a. *Increasing the implementation of audit in public organizations.* Taking into account the report on the work of the internal audit in public on 2011¹, developed at the national level, shows that internal auditing is operational only at

¹ Annual report of the internal audit activity in the public sector, conducted by UCAAPI in 2011 – www.mfinante.ro.

the rate of about 40% to the level of public authorities. Conditions which have made it difficult to implement the function of internal audit in all public entities are as follows:

- budgetary restrictions of public entities-reduced size cannot sustain the financial organization of the internal audit function;
- the lack of specialized personnel and shortcomings at the level of his training;
- cultural barriers;
- costs relatively high with the establishment and functioning of the internal audit Department;
- internal audit is not always understood by decision-makers.

The main problem, which led to the actions of the internal audit function across all public entities, is the limitation of financial resources, as well as the low volume of activities, that does not justify the creation of a functional internal audit within them.

At the same time, the formation of internal audit at the level these institutions require hiring a single auditor, which is unworkable in relation to the regulatory framework, which specifies that an internal audit should be set at the level of at least two posts.

In this context, to ensure the needs of management, wanting to have a good control of risk management, internal control systems and governance processes, the development of cooperation in order to ensure internal audit function constitutes a public good for the implementation of internal audit.

The cooperation is based on the joint exercise of internal auditing of local public entities more, one performing the role of organizer or to carry out this task for several local public entities by the internal audit divisions organized at the level of public interest non-governmental structures of local public administration authorities, on the basis of agreements and in accordance with the decisions of the local councils¹.

Please note that the implementation of such a system of insurance of the function of internal audit in public administration institutions develop a european concept². According to this concept, the more geographically limited reform may

¹Law No. 672/V/2002 concerning internal audit, republished, with subsequent additions.

² In the practice of the United Kingdom were more structured forms of partnerships that work with corporate governance principles and duties of which and pursuit of effective internal audit function and assist management in ensuring the financial arrangements, while respecting the principle of transparency of management.

be grouped around the organising entity, and may be associated with attainment of the internal audit function on the basis of a cooperation agreement, which governs the conditions for the Organization and functioning of the internal audit division.

In this regard, access to shared internal audit function is achieved by associating the inevitable public entities, and the costs are much lower compared to the conditions under which a town hall and would create its own internal audit department and would hire an auditor.

The economic and financial effects, following the implementation of such a system-cooperation for carrying out the internal audit function at the level of public entities that cannot ensure an independent internal audit function will result in more planes, as follows:

- increased transparency in the use of public funds and the management of public patrimony;
- improving the quality of management of public entities, by contributing to managerial decision;
- lower costs in ensuring internal audit function in the system of cooperation to organize its own internal audit divisions;
- increasing the implementation of the internal audit function;
- more rigorous monitoring of the use of public money.

Through the implementation of cooperative activities at the level of public entities and the formation of specialised services will raise the internal audit function in the public administration, which will contribute to the improvement of the activities carried out in the framework of these entities.

b. *Ensuring and improving the quality of the internal audit activity.* Course in good condition of the internal audit activity implies the existence of a programme of quality improvement and assurance, which aims at ensuring the objectives of internal audit, compliance with the rules and instructions and the professional development of the staff in the audit. This should permit a check upon the effectiveness of the internal audit, internal and external evaluations and continuous monitoring to have a double purpose: to assist the internal audit, to bring an added value to its activities, to improve and to ensure that they are carried out in compliance with the rules and the code of conduct¹.

Internal evaluation is carried out by the head of the internal audit activity. It is, on the one hand, on the occasion of completion of audit missions and includes

¹ The standard 1300 Insurance Program – and improve quality.

controls for the smooth functioning of the internal audit, the handlers of these missions and examination of the effectiveness of the internal audit rules, and on the other hand periodically, usually annually, and in the character of the individual performance of staff.

External evaluation in practice is carried out by level upwards and external auditors working in the Court of Auditors, whose objectives concerned both the organizing function, as well as its functionality.

Taking into account the importance of improving the quality of the internal audit activity, in our opinion assessing the internal audit may be ensured by:

- quality evaluation of current activities carried out by the internal audit controls that are intended to ensure that the supervisory tasks: tasks, internal audit activity performance measurement, evaluations conducted by the current management of audited bodies on the quality of the audit missions carried out respecting budgets, as well as through autoevaluări;
- regular assessments of the management with regard to compliance with the rules and assessing the effectiveness of internal audit structures, in particular with regard to the ability to respond to its needs;
- external evaluation carried out by independent and qualified persons and which can express a qualified opinion on the internal audit functionality compared to its needs.

Also, considering that the practitioners operate based on a normative framework, we can assume that the internal assessment can be achieved effectively by reference to procedural requirements imposed by the regulatory framework.

c. *Increasing the skills of Internal Auditors.* The internal public audit implementation in Romania and to date, have not been imposed by the qualitatively special order requirements for employment of public internal audit function.

Practice in this area sets a set of criteria that help to assess the knowledge and training of specialist personnel in the field of internal audit are sufficient and offers quality management reports, including expert advice, so as to contribute to improving its activities, among which we mention the following:

- audits carried out are complex, incorporates and treats complex systems and performance;
- the recommendations made concerning the causes of disfuncției and further the implementation of correct and adequate inspection tools;

- audit objectives relating to the allocation, management and efficient use of resources, and the findings have an impact in relation to the intended purpose of the objectives;
- processes of risk management, control and good administration are tracked and evaluated within the framework of the audit missions.

To achieve these objectives during the internal audit activities of the Auditors to hold sufficient knowledge so as to cover all the areas of activity of the entity, and by the results, conclusions and recommendations formulated to contribute to the performance of the entity.

In practice, in many situations, reduced quality in the audit work, manifested through the contents of audit reports, the main cause being represented by limiting the knowledge base staff, prepare specific academic requirements for auditing functions to specific technical or knowledge required. Also, in many cases the knowledge relating to risk management, internal control or proper governances were not discussed at the training base, which encumbers the internal audit can contribute to improving the management of the entity and its activities.

Starting from these considerations and bearing in mind the future trends in the development and evolution of the internal audit function, in order to become effective, we appreciate that the management skills of the internal auditors during this period it is necessary to strengthen the internal audit in public entities. The acquisition of these skills is to be understood by the fact that auditors must acquire new knowledge, to be able to ensure high quality audits or to improve its knowledge on certain areas, in relation to the complexity and diversity of activities carried out within the framework of the entity.

For this purpose it is necessary to develop the system of attestation of professional auditors, whose result is to increase the quality of audit work, staff working in the public sector, of a sufficient level of knowledge and adequate to cover all areas of activity of the entity and to enable it to carry out the assessment and examination of the quality of the activities of the entity which is improving performance in this task.

The attestation system of Internal Auditors must be based on recognition of the skills acquired by staff of the audit in connection with the preparation of the basic and further training, within the framework of recognized educational institutions, regulatory knowledge and skills necessary to advance, could plan and realize the Mission of internal audit.

d. Improving the supervisory process of internal audit activity. Overseeing the internal audit activity is considered a task of mentoring, counseling, monitoring and verification carried out by the internal audit officer operation audit and mission consists in checking the quality of the information contained in the documents prepared by the audit. Practice in the field of spent primary way of formalizing its supervision on each working paper prepared.

Audit standards state that "audits must be subject to appropriate monitoring in order to ensure compliance with the objectives, ensuring quality and professional development of the staff".

In these circumstances, the person responsible for the organisation of the internal audit activity should verify and coordinate all activities, beginning with the planning of the mission and continuing with the examination of the documents and the audit report, in order to ensure that the objectives of the Mission in terms of audit quality. This is possible given that the persons concerned, the Auditors, the internal audit supervisor and controller use professional judgment regarding the evaluation and assessment of risk management, control and governance processes.

The role of internal audit in improving management of public institutions

The general objective of the internal audit in public entities to improve their management is and can be achieved mainly through:

- the insurance activities), which is the objective examination of what, for the purposes of public entities to provide an independent assessment of the processes of risk management, control and governance;
- advisory activities) designed to add value and improve governance processes in public entities, without the internal auditor to assume managerial responsibilities.

In these circumstances, the internal audit function and a means of support which allows managers and organizations to better manage activities.

a. Insurance services. Insurance is the opinion that everything is okay. Insurance is reliable only if it is the result of a systematic and rigorous examination of the facts. Insurance services may refer to:

- Complete - control systems are efficient and effective work, and risks are managed and maintained at a certain level;
- Limited - are expressed in situations when problems are found and vulnerabilities in the functioning of the control systems. In this case, it will have

regard only to matters considered appropriate and will be formulated recommendations on how coverage of disfuncției.

Insurance services provided by the internal audit in the public sector is characterized by the following:

- supply of them is governed by detailed rules and procedures for the work developed and approved at the level of each organization;
- high degree of complexity caused by the complexity of the internal audit of the mission and goals of public organization;
- insurance activities provided are targeted mainly to the appreciation of the risk management and control systems.

It is noted that the internal audit will not be able to offer an insurance never complete because the tests are carried out on the basis of samples and the audit is cyclic, depending on your level of risk.

b. Advisory services. Counseling is a recent internal audit task. This type of service provided by internal audit managers is considered by most as an activity audit undertaken, designed to add value and improve the system of governance and the internal auditor to assume managerial responsibility.

Literature fall under the category of activities, counseling provided by internal audit assignments in the following advice:

- formalized advisory missions, listed in a separate section of the annual internal audit plan;
- advisory missions-informative, achieved through participation in the various standing committees, or fixed-term projects;
- advisory missions undertaken by participating, within the framework of established teams to evaluate or implement activities or actions;
- training and training conducted by providing knowledge to other employees relating to the management of the organisation, risk management and internal control.

In these respects, it appears that the advice may be a natural extension of the activities of insurance that these services can interact with each other or are complementary.

Internal audit activities which it conducts and qualifications is the tool that can make management of tasks and on leveraging the proper use of public money. Stakeholders from the business entity (State, taxpayers, shareholders, employees, public institutions, etc.), requested information on how the management decisions cause to its results and even are interested to have assurances as to the quality of leadership.

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