

THE COOPERATION SYSTEM ENSURING THE INTERNAL AUDIT FUNCTION AN EUROPEAN CONCEPT FOR AN EFFICIENT ORGANISING OF THE INTERNAL PUBLIC AUDIT ACTIVITY

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Abstract: This work is about a new internal public audit activity organising method which resides in the cooperation between several local public institutions with the aim of jointly ensuring the internal audit function. The cooperation system ensuring the internal audit function resides in the grouping of several local public entities around one, called the organising local public entity, on adjacent areas and main communication ways basis. The internal audit function shall be ensured by the organising local public entity which will develop a large enough internal public audit structure that will yearly perform at least 2-3 internal audit missions at the local public entities comprised in the cooperation agreement, at the professional standards level.

JEL classification: M40, M42

Key words: internal public audit activity; local public entity; the cooperation system; internal audit missions; the internal audit departments.

1. INTRODUCTION

The economic recession Romania is facing for the time being, generates unbalances at the public sector level, materialized in the limitation of the public resources, lack of motivation of the human resources as well as in the multiplication of the risks and uncertainties. The effects propagate at the level of all the functions of the public sector entities including the internal public audit too which represents one of the valuable functions. The fact that the internal audit undergoes a critical moment is unanimously accepted. The environment the internal audit operates in is continuously changing, mainly due to the fact that the industries, economies as well as the regulation framework have been affected by the global economic crisis.

2. OBJECTIVES

Starting from the significations conferred on the internal audit and the present context, by the research carried out, we propose a predictive approach thereof. Our opinion is that such an approach creates the interface both with the future audit missions and the entity management and stresses the dualist quality conferred on the internal audit: a maker of added value and a partner of the public sector entity management.

Being confident that any approach for the development of the theory and practice of the audit in the public sector represents a useful support for the internal auditors in their activity, our aim is to bring clarifications, developments and some contributions of our own to the enrichment of the theoretical and methodological knowledge in the public sector audit field by an analytical approach there of and by referring to a large bibliographic present days material.

3. THE NEED TO ENSURE AN EFFICIENT INTERNAL AUDIT FUNCTION

The audit domain has an important place in the premises for a successful integration in the European Union and these studies aim to harmonize the national legislation and its own audit norms with the standards and the best audit practices accepted at the international level. The rules and norms established in European directives are not strictly restrictive; they are required to be applied depending on the juridical possibilities and the economic structure of each country without interfering with the existing legislative equilibrium.

National regulations establishing the practices to be used in the public sector audit process are continuously created in the countries that have adhered to the European Union. These aspects are also achieved by our country which has permanently improved the audit field regulations from 1999 until now.

Comparing the provisions of the European Economic Community Directives with the national juridical regulations in the audit field, it comes out that the specialized legislation and practice in our country have assimilated the international requirements with a high degree of professional altruism. Under the circumstances, the managerial audit and the performance audit get a special importance. This one adds value to the management processes by evaluating same and ensuring that they are adequate and efficient. The offered audit services refer to advising the management to do things better but the manager is the one to remain responsible for his decisions.

The audit work surplus value does not reside only in the specific contribution or even in the recommendations and conclusions of the auditors which in fact represent a method of communication with the manager of the audited entity; the value of the audit is represented by its capability to improve the entity internal control system. At the same time, the auditor is a promoter of value through the savings he generates, the opportunities he creates and the losses that can be avoided thanks to his actions. From this point of view, the AUDIT becomes an element that ensures the transparency of the information and contributes to the entity strategies becoming efficient.

The reaching of such aims is based on the systematic resorting to the evaluation of the risks inside the entity, the managers having to accept that the creation and promotion of a risk awareness culture inside the public entities is the number one priority. Nevertheless, the leading activity, the management, is still carried out empirically without taking into consideration the auditors recommendations and the good practice in the field.

The risk awareness culture, where everyone plays a certain part in the risk management inside the entity, has a reduced perception which can be proved by the fact that most entities in the public sector gave too little attention to the creation of some systems for the identification of the potential risks at an incipient stage by establishing a risks tendencies early warning system. The practice clearly shows that no risk management process is perfect for the identification of the failures, for the avoidance of "surprises".

From this point of view, it is necessary that the managers should understand that the audit recommendations must be put into practice in order to avoid the possible risks as much as possible. At the same time, failure to identify the risks or the wrong judgment that the identified risks are improbable to happen, proves an improper attention given to this activity, failure to systematically update risk analysis and the lack of concern in determining the line managers and the other employees to think their own duties based on the risk valuation. In the effort of our country to align to the European standards in the decade that has elapsed from the implementation of the audit in the public sector entities, great importance was given to the development of this function which after a quick passing over the specific activities decantation stage, is now in the consolidation phase. The good accumulated practice in the public sector audit field, in fact, pointed out that the progress can be hardly achieved in the process of the implementation of the audit in the public sector if there is no knowledge of the fundamental practices and principles in the field.

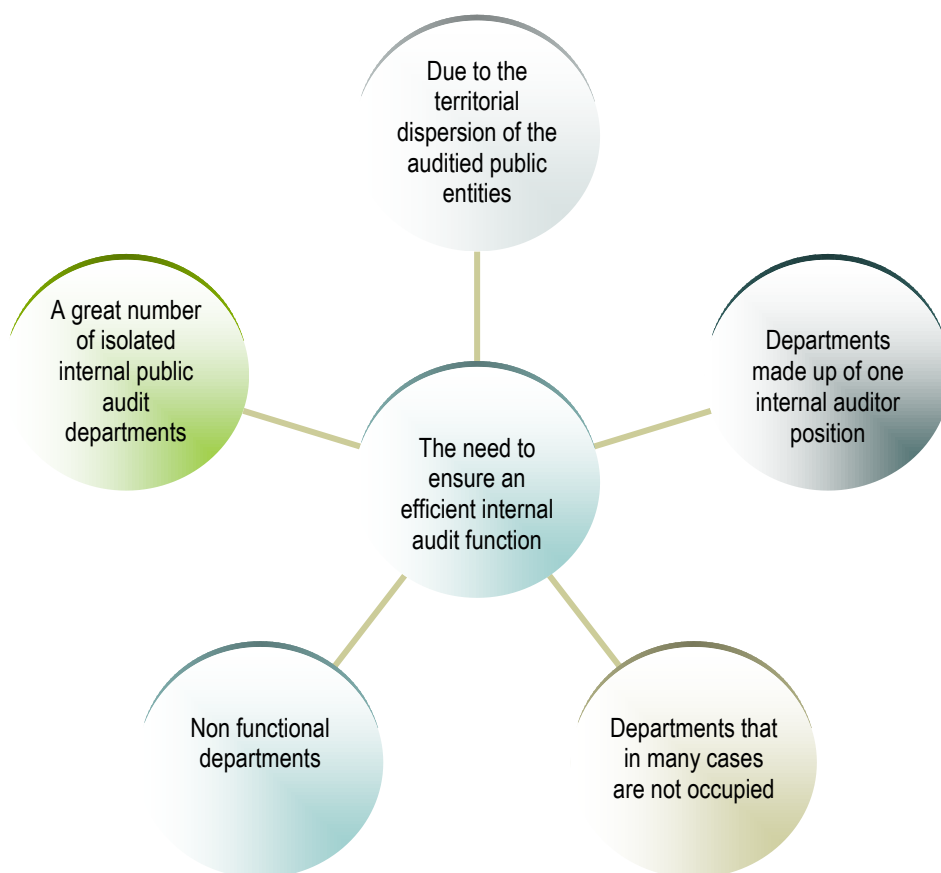


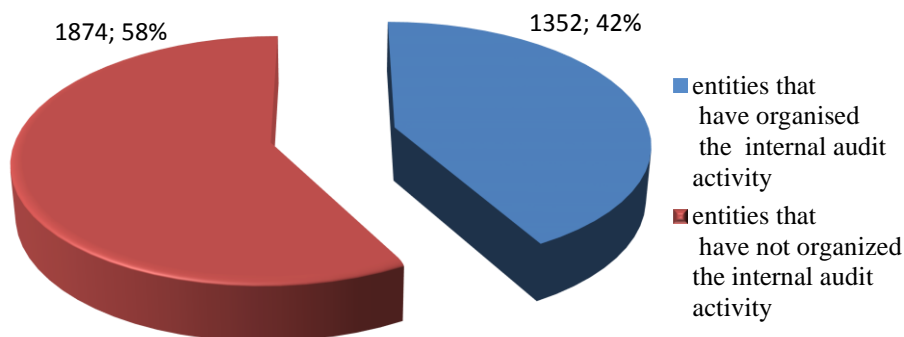
Figure no. 1 The need to ensure an efficient internal audit function

For the time being, in our country, due to the territorial dispersion of the audited public entities, we meet a great number of isolated internal public audit departments made up of a single internal auditor position which not only that they are nor functional but in many cases, they are not even occupied. The international internal audit standards recommend that the structure of the internal public audit department should contain a number of auditors capable to ensure at least the minimum level of the internal public audit specific activities. In this respect, the good international practice in the filed specifies that there must be at least three internal auditors.

The evolution of the internal public audit activity in the public sector has had an ascending trend lately, the beginning stage - when the institutional bases were put - being fulfilled and now we are in the consolidation phase - when the internal public audit must become entirely functional - and bring an important contribution to the good management of the public money[1]. One of the difficult matters encountered during the process of implementing the internal public audit activity in the public sector at the level of the main credit release authority managing a quite small budget, is to create an internal public audit structure capable to carry on such activity at the level of the professional standards.

Following the evaluation of how the internal audit is carried out at the main credit release authorities, at local level, it came out that for an important category of public entities managing an income and expenses budget between RON 1,000,000-3,500,000 the internal audit function is implemented to a small number of same, namely below 30%[1].

At the local public administration level, out of a number of 3226 public institutions that were liable, according to law, to organise an internal public audit department, only 1352 entities established their own internal audit structures which represent 42% [8].



Source: *The annual report of the internal audit activity in the public sector, made by UCAAPI, in 2009*

Figure no. 2 The situation regarding the organizing of the public audit activity for 2009

We usually meet this situation at the small public institutions, at the local level, due to the lack of specialised personnel, the relatively high costs necessary to ensure the internal audit function. At the majority of such public entities, the internal auditor position is comprised in the organisation chart containing internal public audit departments made up of a single auditor but in most cases the respective positions, not being taken, are not operational, therefore they are not functional. At the same time, the internal auditors of these departments cannot ensure the carrying out of mandatory procedures within an audit mission such as the supervising of the internal audit mission and the ensuring of a development and improvement program related to the internal auditors work quality. Beside the above mentioned, there are also problems related to the documentation, assimilation of the professional standards and implementation thereof. Due to these grounds, it is necessary that more flexible methods be found in order to ensure the internal public audit activity inside the small public entities and the removal of the departments made up of a single internal auditor, isolated and territorially dispersed by organising functional and efficient structures or which to be attached to the internal public audit departments in the area carrying out their activities adequately and at professional standards.

Therefore, the carrying out of the internal audit function by a structure made up of a single internal auditor has besides the risk of interrupting the activity, the risk of failing to comply with the professional standards[7] under the following aspects:

- Failure to comply with Standard 2340- the supervising of the internal audit mission due to the impossibility to exercise the activity of supervising how the internal audit mission is carried out, having in view that this activity, an essential component of the internal audit work, must be carried out by another internal experienced auditor not directly involved in the relevant mission;
- Failure to comply with Standard 1310- the evaluation of the program related to quality, due to the impossibility to create a program for the ensuring and improvement of the quality of the internal audit activity, a complex activity which is the direct duty of the internal public audit department chief and which is based on an internal and external evaluation process, systematically carried out.

4. THE COOPERATION SYSTEM - A SOLUTION TO ENSURE THE INTERNAL AUDIT FUNCTION

Having in view the difficult problems encountered during the process of implementation of the internal audit activity to the small entities at the level of the main credit release authority managing a relatively small budget and taking into consideration the experience of the European Union countries that have resolved this major problem related to the ensuring of the internal audit function by creating associations/partnerships, for the time being, in our country, the Public Finances Ministry has drawn up the law for the alteration and supplemental of the internal public audit law with new elements introduced in compliance with Internal Audit International Standards and the good practice in the field[6].

The alterations made are intended to strengthen the specific legislative framework so that it may lead to the enlargement of the implementation framework but especially to the increase of the contribution of the internal audit activity to the smooth running of the public entities.

One of the newly entered elements is a new method of organising the internal audit activity by means of the system of cooperation among several local public entities with the aim of jointly ensuring the internal audit function.

In this respect, the cooperation system ensuring the internal audit function resides in the grouping of several local public entities around one, called the organising local public entity, on adjacent areas and main communication ways basis. A cooperation agreement will be entered into among the organising local public entity and the other local public entities, for the joint exercise of the internal audit activity, concretely regulating the drawing up of the internal audit plan, the system for the carrying out of the internal audit missions, the methods to report and monitor the implementation of the recommendations, the method of financing the costs etc. The internal audit function shall be ensured by the organising local public entity which will develop a large enough internal public audit structure that will yearly perform at least 2-3 internal audit missions at the local public entities comprised in the cooperation agreement, at the professional standards level.

For the concrete implementation of the cooperation activity, the following alterations and supplements are provided to be entered [6]:

- entering the cooperation concept to ensure the internal audit function which shall be made by grouping two or more local public entities whose definition is in compliance with the Law of the local public administration no.215/2001, re-enacted, art.11, para.(1)[4];
- supplementing the duties of the Ministry of the Public Finances, UCAAPI respectively, in order to establish the general framework of the cooperation agreement for ensuring the internal audit function for the local public entities and for guiding them in organising the cooperation activity for ensuring the internal audit function.

At the same time, clarifications are brought related to the organisation of the internal audit departments inside the organising local public entities, the sizing of the internal audit departments, the expenses distribution system for the entities comprised in the cooperation agreement, how to draw up the internal audit plan of the organising local public entity and the specific reporting system under the condition of carrying out the internal audit activity on a cooperation basis.

At the same time the competency of the Ministry of the Public Finances was established as well as the deadline for drawing up the master cooperation agreement for the local public entities for ensuring the internal audit function.

In this respect, the Order has been issued related to the approval of the Master Cooperation Agreement for the organising and exercising of some activities with the purpose of carrying out some duties established by the law, of the local public administration authorities[5], published in November 2010 in the Government Gazette.

In order to implement the cooperation activity for ensuring the internal audit function, it is supposed that there will be no additional financial effort; this cooperation has to be based on efficiency, effectiveness and economy principles corroborated with the local autonomy principle. On the contrary, the local public entities involved in the cooperation will thus diminish their costs for the creation of the internal audit structures and at the same time, the necessary conditions will be created for the operation of the internal public audit at the professional levels.

For the local public entities having their capacity as main credit release authority and which are unable to ensure their internal audit function either by creating

their own structures or by cooperation with other similar public entities, the law project proposes, as a complementary solution, the extension of the internal audit carried out for these public entities in order to be exercised by the Public Finance Ministry territorial structures belonging to the county directorates.

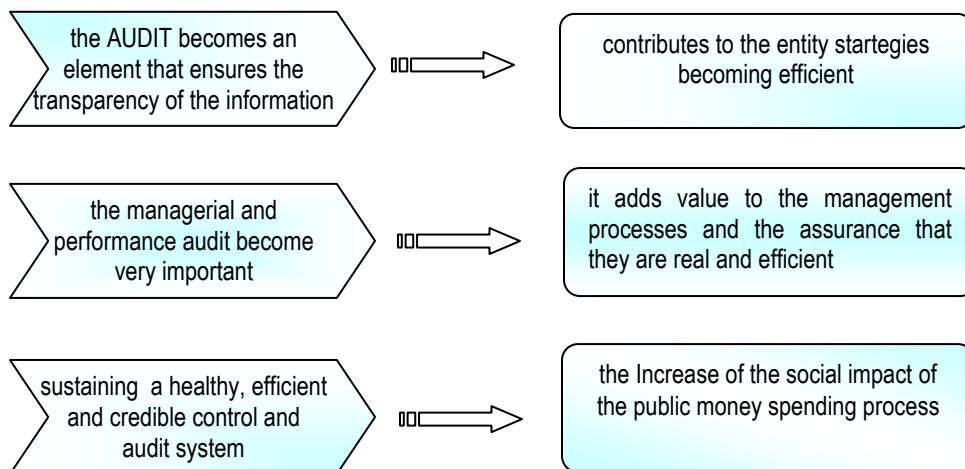
In order that the internal audit function to be ensured by the county general public finance directorates (GPF) the following are suggested:

- establishing the internal audit territorial services inside the county general public finance directorates that are centres of the development regions, with the aim of ensuring this function;
- the internal audit territorial services will be subject to the provisions regarding the internal audit organising and functioning which are common to the audit departments at the level of any public entity[1].

By implementing the cooperation activity at the level of the small entities of the public sector and the creation of the specialised services inside the development regions the audit function shall be ensured in a great number of public entities and therefore, the quality of the activity regarding income collection, management and efficient use thereof will be improved.

5. CONCLUSIONS

As a conclusion, the scientific activity carried out in order to draw up this work can be inserted in the publications and document research as well as in the fundamental and applicative research of the entire process of the audit in the public sector, offering in this way, an integrated approach of the problems related to the process of making efficient the ensuring and advising services offered by the AUDIT to the management of the public institutions in Romania.



In our view, by sustaining a healthy, efficient and credible control and audit system, we aim at the increase of the social impact of the public money spending process. We only have to stronger promote this professional service - the AUDIT- in the economic and institutional environment and to develop the best professional practices according to the International Audit Standards in order to eliminate the deviations/dysfunctions met in the activity performed, proposing corrective measures

that can lead to the improvement of the results and the use of the public funds on the basis of the principles of the “3E” in order to achieve the objectives. The consequences of the operation of the public sector entities on no efficiency, effectiveness and economy principles, of the failure to comply with legal provisions and of a bad management have implications at the level of the entire society and materialise in:

- the inappropriate use of the available resources, with large negative effects related to the achievement of the objectives;
- the carrying out of the internal processes composing the specific domain of activity, without any bench marks and notable performances.
- the increase of the tensions at the social level as a result of the biased decisions, not sufficiently grounded.

Our opinion is that, by the formalised procedures and the informal character, the AUDIT is the main component of the general management, comprising the totality of policies and principles created and implemented by means of all the technics, methods, processes and resources the entity disposes of, with a view to permanently monitor the operations projects subsequently materialised in legal commitments the entity performs for the achievement of the missions and objects previously established that are specific to its domain of activity by performance criteria in the use of resources.

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