

# RISK AND INTERNAL AUDIT VALENCES WITHIN THE PUBLIC HEALTH SECTOR ENTITIES\*

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## **Abstract:**

*Health is a great interest domain and, at the same time, a complex system involving a significant amount of resources, services and the entire population as consumers (patients). Therefore, the associated risks within the health system are various and have both financial and qualitative effects upon the medical act. The objective of the performed constructive research is to develop the role of internal audit from risk perspective within health system entities.*

**Key words:** health system, risk, internal audit, settlement of accounts, medical and pharmaceutical services

**JEL classification:** M42

## **INTRODUCTION**

The objective of the undertaken study is to develop the internal audit role from risk perspective into the health system entities. Risk identification is the most important stage into the risk management process due to the fact that the possible dangers existing into the public entity can be discovered. The main objectives of the internal audit are the evaluation of risk management process and information on these evaluations.

This research is based on a synthesis of the ideas published into literature, regulations issued by national and international accounting regulators, by accounting bodies.

By the constructive undertaken research we explain the concepts of risk and internal audit in the health public system and we identify from internal audit perspective the objectives, objects to be audited and associated risks of the activity of settlement of accounts for medical and pharmaceutical services.

## **1. CONCEPTUAL APPROACHES REGARDING RISK AND INTERNAL AUDIT IN THE PUBLIC HEALTH SYSTEM ENTITIES**

The health system comprises all the organizations, entities and resources involved in and designated for the activities of promotion, maintenance and improvement of the population state of health (Health World Organization, 2000). This responsibility is completed by the population protection against financial risk related to sickness and by answering the population expectations.

The actors playing a role into the health system are not only hospitals, doctors, health insurance bodies, but also all the entities participating in the health services supply and financing, including professional organizations, private suppliers at national and international level.

Like other systems, the health system involves financial, material and human resources, but its complexity is characterized by the following issues: organizational culture; governing regulations; ascendent trend of medical technologies and medical knowledge; great number of actors interacting for the benefit of the final consumer, the patient; informational asymmetry between patient and doctor; resources and needs in inverse ratio; all of these offering a different approach of this domain. Therefore, the risks in the health system are in accordance with its complexity.

In general terms, risk is the combination of the probability of the event occurrence and its consequences. Thus, risk consists of a series of challenges to be dealt with in the context of major decision making, due to the fact that it diminishes concentration on success and keeps down the achievement of desired results.

Vincenti (2002) defines risk as a threat of an event or action to have undesired effect on the entity's capacity to successfully achieve its objectives.

The definition given by the International Standards of Internal Audit states that risk is the possibility of an event to occur and have impact on the achievement of objectives.

In terms of national regulations, the public internal audit is the event, activity, situation or behaviour with negative effect upon the entity's capacity to achieve its objectives.

From point of view of the couple internal control – internal audit, risk is an assembly of circumstances which could have negative consequences on an entity whose internal control and internal audit have as a mission the ensurance of a good control on them.

Although various, the definitions presented above have as a convergence point the incertitude and the negative impact of risk on achieving the proposed objectives and, implicitly, on the performance of the public sector entities.

The public sector entities are exposed to risks which can vary, from risks commonly met with all the public sector entities to particular inherent risks met with the activity of supplying medical services. The common risks can be represented by: operational risks, having as a basis the inefficient control of the high risk transactions, inappropriate document filing, incomplete accounting evidence; organizational risks, generated by inappropriate organization of human resources, not clear enough responsibilities, non-updated and unclear documentation; financial risks produced by non-traceable high risk transactions, insecure payments. Among the particular risks we can mention: risks related to medical service financing and inappropriate resource management, risks concerning the medical care supply, the documentation on the patient evolution in hospital, the compliance of proceedings and specific treatments with the protocols and standards adopted at the entity's level or at national level, the manner of supplying medical care, connex care, medication supply, patients' information.

The undertaken research shows that risk emergence determined the concept of internal audit. In the public sector in Romania, the concept of audit, under cover of public internal audit title, was implemented six years ago through the reform into the public financial control system.

In terms of national regulations, the public internal audit is the activity functionally independent and objective activity that offers support and counseling to the managing board for a good administration of public revenues and expenses, improving the public entity's activities; it helps the public entity to achieve its objectives by a systematic and methodological approach which evaluates and improves the efficiency and effectiveness of the managing system based on risk, control and process management.

The International Standards of Internal Audit offer a complete definition of the internal audit concept: this is an independent and objective activity that ensures the degree of control on operations for the entity, guides it to improve its operations and contributes to a plusvalue addition. The internal audit helps the entity to achieve its objectives by evaluating the process of risk, control and organizational management in a systematic and methodological way, and by making proposals in order to consolidate their efficiency.

Although the above definitions seem different, their thoghrough examination shows the fact that the demarcation between the internal audit and public internal audit

is based on objectives and domain of activity and not on concept. Therefore, the internal audit into the health public system is subordinated to the public internal audit/internal audit.

The internal audit is a function of the public sector entity and ensures the degree of control on operations, guides it to improve its operations and contributes to a plusvalue addition. Thus, the internal audit is the appanage of an efficient management.

The priority objectives included into the public internal audit are the following : objective assurance and counseling assigned to improve the systems and activities of the public entity; support in achieving the objectives of the public entity by a systematic and methodological approach which evaluates and improves the efficiency of the managing system based on risk, control and process management.

## **2. TRI-DIMENSIONAL APPROACHES: OBJECTIVE-ACTIVITY-RISK FROM INTERNAL AUDIT PERSPECTIVE OF THE SETTLEMENT OF ACCOUNTS FOR MEDICAL AND PHARMACEUTICAL SERVICES**

The internal audit is performed upon all the activities within public hospitals, as well as upon public patrimony management. Without being exhaustive, the national regulations within public internal audit domain, state the following operations and activities subject to internal audit: budgetary and legal agreements from which there come out directly or indirectly the payment liabilities, including from community funds; payments assumed by budgetary and legal agreements, including from community funds; sale, warranty, concession or leasing of goods from the private domaine of the state or of the administrative-territorial units; concession or leasing of goods from the public domaine of the state or of the administrative-territorial units; formation of public incomes, respectively the manner of certification and establishment of credit bonds, as well as of facilities granted to their receipt; allotment of budgetary credits; accounting system and its reliability; decision making system; leadership and control systems, as well as the risks associated to such systems; informatic systems.

The central issue of any public health system is the financing; therefore, the main objective of the internal audit is the way of resource allotment.

Within the context of the acute economic crisis, it is difficult to create and maintain the ballance between the individuals expectations, society priorities and public resources available for the sanitary system, due to the ascendent/unlimited character of needs and to the limited/descendent character of public resources available to answer them. The undertaken research approaches, from internal audit perspective, the objectives and risks of the activity of settlement of accounts for the medical and pharmaceutical services.

From internal audit perspective, the objectives, activities and risks associated to the settlement of accounts for medical and pharmaceutical services are the following:

*Table no. 1*

*Tri-dimensional approaches: objective-activity-risk from internal audit perspective of the settlement of accounts for medical and pharmaceutical services*

<b>1. Analysis and evaluation of the reporting activity for medical and farmaceutical services</b>		
<i>Objects to be audited</i>	<i>Risks to be identified</i>	<i>Classification</i>
Written evidence of working proceedings regardning the reporting activity of supplying medical and farmaceutical services	Lack of proceedings regarding the reporting activity	Significant
	Non-approval of proceedings regarding the reporting activity	
	Non-pronouncement the competences and responsibilities in the proceedings	
	Proceedings do not ensure task division	

	Non-knowing and applying the written working proceedings	
Receipt and registration of invoices issued by the suppliers of medical and pharmaceutical services for the activity carried out in accordance with the contract concluded with the insurance office	Receipt and registration of invoices without activity schedules, required by legal regulations	Significant
	The activity schedules enclosed to invoices are not fill in with all the required data	
	Invoicing the performed medical and pharmaceutical services with a higher tarrif than the one negotiated and contracted with the insurance office	
Checking the truthfulness of activities performed by medical and farmaceutical service suppliers and granting of permit called " <i>Certificate regarding truthfulness, regulation and lawfulness</i> "	Non-granting the permit " <i>Certificate regarding truthfulness, regulation and lawfulness</i> "	Significant
	Granting the permit by persons who are not assigned with this resposibility into the personnel specifications	
	Granting the permit without checking the activity schedules	
	Granting the permit by persons who make the payment for the medical and farmaceutical services	
Checking the existence of due amounts and of the exigible conditions of payment liabilities and application of signature on the seal bearing the phrase "Checked"	Lack of signature application on the seal bearing the phrase"Checked"	Average
	Signature application without checking the supporting documents provided by the regulations in force	
	Signature application on the seal bearing the phrase"Checked" before granting the permit " <i>Certificate regarding truthfulness, regulation and lawfulness</i> "	
	Signature application on the seal bearing the phrase"Checked" by persons who are not assigned with this resposibility into the personnel specifications	
Submission to the credit chief accountant of the supporting documents cerifying the transit of expenses liquidation stage in order to obtain the permit "OK payment"	Granting the permit "OK payment" by the credit chief accountant before the transit of expenses liquidation stage	Significant
<b>2. Analysis and evaluation of the settlement of accounts for medical and farmaceutical services</b>		
Preparation of payment orders by the authorized persons	Preparation of payment orders before the supporting documents transit of liquidation stage	Significant
	Preparation of payment orders by persons who make the payments	
	Preparation of payment orders by persons who are not assigned with this resposibility into the personnel specifications	
Submission of the payment order,	Wrong registration of the existing assets before performing payment	Significant

accompanied by original supporting documents, by the budget, financial, accounting department in order to check the existing assets before paying and signing the payment	Lack of signature of the authorized persons employed within the budget, financial, accounting department on the payment order to confirm the truthfulness of the existing assets before performing the payment	
Exercising the preventive financial control and registration of the payment orders in the operation project register submitted to the approval of the preventive financial control	Granting the approval of the preventive financial control without finding out possible errors	Significant
	Non-registration of payment orders in the operation project register submitted to the approval of the preventive financial control	
	Non-exercising or non-compliance with the preventive financial control	
Approval of payment orders by the credit chief accountant	Approval of payment orders by persons who are not authorized in this respect	Significant
Submission of the payment order and supporting documents to the budget, financial, accounting department in order to make the payment	Subdivision of the approved budget where the payment is performed from is not the correct one and it is not related to the expenses	Significant
	The signatures on the supporting documents does not belong to the credit chief accountant or to the persons who he appointed to perform tasks resulting from the budgetary expenditure execution	
	The due amounts towards the beneficiary is not the correct one	
	The documents are not filled in with all the required data	
	Lack of the supporting documents enclosed to the payment orders	
Payment through treasury within limits of the opened and unused budgetary credits	Drawing up payment orders before passing the stage of paying the expenditures	Significant
	Drawing up payment orders with other values than the ones registered into the payment orders	
	Drawing up payment orders by persons who performed issuance, liquidation and payment of expenditures	
	Performance of payments towards another supplier	
	Non-performance of payment as a result of errors into the filling in of payment order	
Checking the extract payment operation	Inconsistencies between the amount written into the extract and the one into the payment order	Significant

Within the internal audit mission of settlement of accounts for medical and pharmaceutical services, the risk analysis is an important stage due to the fact that its scope is, on one hand, to identify the dangers into the audited entity, the extent to what the internal controls or the entity's proceedings can prevent, eliminate or diminish dangers, and on the other hand, to evaluate the structure/evolution of its internal control. Classification of risks associated to activities (table no.1), final objective of risk analysis, consisted in the following ranging:

- identification of activities which can be audited;
- identification of possible inherent risks, associated to the activities which can be audited;
- establishment of criteria of risk analysis as it follows: internal control appraisal, quantitative appraisal and qualitative appraisal;
- establishment of risk level of each criterion by using a scale of values on three levels:
  - for internal control appraisal: appropriate internal control – level 1; inadequate internal control – level 2; internal control with great deficiencies – level 3;
  - for quantitative appraisal: low financial impact – level 1; average financial impact – level 2; great financial impact – level 3;
  - for qualitative appraisal: low vulnerability – level 1; average vulnerability – level 2; great vulnerability – level 3.
- establishment of total score of used criterion (T) based on the formula:

$$T = \sum_{i=1}^n P_i \times N_i$$

$P_i$  = risk share for each criterion;  
 $N_i$  = level of risks for each criterion used.

- classification of risks, on the basis of overall prior scores, into: low risk, average risk, high risk;

The tri-dimensional survey activity-risk-risk classification, shows that most of the activities subordinated to the settlement of medical and pharmaceutical services are exposed to high risks. Therefore, the level of impact of activities and, implicitly, of objectives will be high. The consequences of these possible risks will be felt at the entire health system level, they will be both financial and qualitative and they will have effects on the patients' health.

The undertaken research shows that risk analysis guides the entire audit mission because, on the basis of this analysis, the auditors draw up the audit plan and programme. Establishing an inappropriate level of risks, to which the settlement of accounts for medical and pharmaceutical services are exposed, leads to non-accomplishment of the internal audit objective, i.e. plus value addition to the entity by support given for the identification and evaluation of exposures to significant risks, for the improvement of risk management and control systems.

## CONCLUSIONS

Actual economic recession, increase of demands for various and quality public services, as well as the public's reserve to pay higher taxes to the unique fund of social health insurance, and requests for greater accountability have imposed exercising a greater control on the way public resources are created and used taking into account the efficiency, effectiveness and economy characteristics. Health system complexity is reflected into its opposable risks. Therefore, risk analysis is an important part of the internal audit process, due to the fact that it guides the plan and programme of the audit mission. Thus, the negative effects can be avoided, both at financial and qualitative level of the medical act.

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