

APPROACHES OF PLUSVALUE GENERATED BY INTERNAL AUDIT INTO THE PUBLIC SECTOR ENTITIES FROM ROMANIA¹

EUGENIU ȚURLEA, AURELIA ȘTEFĂNESCU, MIHAI PĂUNICĂ
ACADEMY OF ECONOMIC STUDIES BUCHAREST, PIATA ROMANA 6, 1 DISTRICT,
BUCHAREST

eturlea@yahoo.com, stefanescu.aura@gmail.com, mihai.paunica@medu.edu.ro

Abstract:

The process of collecting the public resources is a major concern both for the public sector entities and their addressees.

In this respect, this research has as objective to explain and quantify the concept of plus value generated by internal audit into the public sector entities. By fundamental research method we explain the concept of plus value and assess the plus value generated by internal audit in terms of public resources collecting.

Key words: public sector entity, internal audit, plus value, public services

JEL classification: M42

INTRODUCTION

At present, the effects of the economic recession, materialized mainly in the decrease of public resources, are amplified by omissions of public sector entities in respect of achieving their responsibilities. Internal audit is the instrument preventing the occurrence of deficiencies regarding the collection of offered public resources and adding value to the entity.

The research takes into account a synthesis of the ideas published on the topic, the regulations issued by the national and international accounting regulators, and by bodies of the accounting profession.

In order to achieve the proposed objective, there will be used a fundamental research methodology. Also, we will refer to deductive and inductive mechanisms of research in order to define the concept of plus value created by the public internal audit and to identify the manner of quantifying it at the level of public sector entities.

1.DEFINITION OF THE CONCEPT OF PLUS VALUE INTO THE PUBLIC SECTOR ENTITIES

Plus value, also called added value, is generally the new created value within the production process (<http://www.dexonline.news20.ro>).

In economic terms (Angelescu et al, 2001), plus value is the measure of wealth effectively created by economic entities, no matter what activity they perform.

At macroeconomic level, plus value is the calculation basis of the gross domestic product. Also, plus value is a useful instrument for measuring the economic results, both at entity level and economies. Thus, plus value is the binder between accounting at microeconomic level and accounting at macroeconomic level (national).

A similar meaning is given by the financial management, according to which plus value is the source of money accretions out of which there is performed the

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remuneration of all production factors having contributed to its realization, namely: remuneration of work by wages, social expenses; state remuneration by taxes, duties and assimilated payments; remuneration of creditors (contributors) by qualitative public services, and remuneration of entity by financing capacity.

A close analysis of the above meanings shows their convergence, i.e. plus value is an indicator allowing the measurement of the new created value by the entity's activity.

In terms of internal audit, the attempt to give a definition to plus value is difficult, because it encompasses both a financial and a non-financial form.

The professional Norms of internal audit state that the plus value of internal audit is realized when the internal auditors intervene in accordance with certain modalities well-adapted to the entity's culture and resources.

With reference to the Standards of Internal Audit, the definition of plus value results from the definition of internal audit. Thus, plus value generated by internal audit is defined by the following elements:

- Support granted to the entity to achieve its objectives;
- Evaluation by a systemic and methodic approach of the processes of risk management, control and entity's governance;
- Drawing-up proposals for the consolidation of effectiveness of risk management, control and entity's governance.

The regulations opposing to internal audit into the public sector entities (Law no.672/2002) do not give a definition to the plus value of internal audit. By examining the description of internal audit, we identify the following major elements of plus value:

- It offers insurances and counseling to the managing board for the good management of public incomes and expenses;
- It improves the activities of the public sector entity;
- It supports the entity to achieve its objectives by systemic and methodic approach;
- It evaluates and improves efficiency and effectiveness of the managing system that is based on the management of risk, control and administration processes.

The study of the concept of plus value generated by internal audit points to the fact that it is defined by the dual deficiency found by the internal audit and by the value which is added to the entity by its recommendations for the processes of internal control, risk management and governance.

2. APPROACH OF PLUS VALUE GENERATED BY THE INTERNAL AUDIT IN TERMS OF POTENTIAL ERROR DETECTION INTO THE PROCESS OF SETTING UP THE PUBLIC RESOURCES

It is difficult to quantify the plus value added to the public sector entities because the purpose of the audit missions can be correlated with the results directly quantified (collection of the forecast public resources, ending the inefficient use of public resources) or indirectly quantified (recommendations regarding risk assessment, coherence of the entity's activities).

The quantification of plus value added by internal audit to the public sector entities has generated contradictions within professional theory and practice because it does not stand only for the audit report or the recommendations of internal audit, representing in fact a way to disseminate and communicate with the entity's management, but it consists in the internal audit capacity to improve the internal control system. This assertion is argued by the fact that the defective collecting of public resources has had the following causes: lack of compliance with the internal policies and procedures, risks not identified in due time, identified risks but not estimated as probable to occur and with major influences in the next period, as well as deficiencies of the internal control.

At present, the limitation of public resources and even their descending trend represent a major problem at the level of any public sector entity, with effects on the capacity of answering the public expectancies regarding service quality and typology.

In order to emphasize the plus value generated by internal audit, we list the significant potential errors detected by the internal audit in the stage of collecting the public resources (table no.1):

Table no.1 *Plus value generated by internal audit in terms of potential error dualism – effects into the process of collecting the public resources*

| Potential errors detected by the internal audit into the process of collecting the public resources | Consequences of non-detection | |
|--|--|--|
| | Entity | Public |
| Lack of establishment of work procedures | Defective public resources to the state budget, social insurance budget, health social insurance budget, unemployment insurance budget | Incapacity to answer the expectations of the public |
| Employees' unacquaintance with the applicable procedures | | |
| Lack of separation of tasks within the execution of operations | | |
| No updating of procedures | | |
| Inefficient fiscal controls generated by the lack of control programmes | | |
| Unscheduled and non-authorized checkings | | |
| Non-compliance with the verification terms | | |
| Defective information in identifying the contributors | | |
| Controls completed without results and additional debits | | |
| Lack of integral inclusion within the control programme of the unchecked period | | |
| The control of taxes and duties is not exhaustive | | |
| Lack of detection of errors resulted from the calculation of taxes and duties | | |
| Impossibility to set-up the outstanding debt (receivable) for the contributor's debits | | |
| There is no evidence of contributors who have the obligation to submit statements, to calculate and transfer indirect taxes for the state social insurances, health and unemployment aid | | |
| There are received, registered and validated statements which are not accompanied by the substantiation of payment | | |
| The inventory register of contributors has not submitted to the control structure the written list with the employers who have not presented appropriate statements for the relevant fund. | | |
| Defective distribution of tasks on categories of operations and activities within the structures involved into the activity related to contributions to social protection | | |
| | | Limited public services from point of view of typology |
| | | Inverse ratio between the financial contributions of the public to the consolidated budget and the services they receive |

| | | |
|--|--|--|
| Non-submission of statements on payment obligations of natural and legal persons having the status of employer, and of other categories of persons | | |
| Non-registration of the statements regarding the payment obligations of natural and legal persons having the status of employer | | |

A careful analysis of the potential errors within the process of collecting the public resources, whatever level, either generated by inexistence or lack of updating of internal control procedures, or resulted from the lack of applicability or the defective applicability of internal control procedures, shows that the lack of exhaustive and pertinent detection of errors by internal audit have an impact upon the services towards the public, both in qualitative and quantitative terms. In this respect, plus value generated by internal audit is quantified as it follows:

- Degree of collecting the public resources to the state budget, state social insurance budget, health social insurance budget, unemployment insurance budget;
- Degree of insurance of the financial discipline at the level of all economic entities, whatever sector typology;
- Insurance of the public's social protection;
- Supply of public services in compliance with the public expectations and with the level of their contributions towards the set-up of public resources of the relevant budgets.

CONCLUSIONS

The undertaken research emphasizes the fact that plus value generated by internal audit into the public sector entities is a concept difficult to define and, at the same time, to quantify.

Also, we consider that at the level of collecting public resources, the quantification of plus value of internal audit has a major role, due to the fact that the non-detected deficiencies disseminate into all the stages of the budgetary process, with negative consequences on the achievement of objectives of the public sector entities and, implicitly, on the services offered to the public.

In our opinion, internal audit, by means of plus value generated for the public sector entities, contributes to the augmentation of users' trust in respect of its capacity of being performant, as well as of improving its performance.

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