

PUBLIC AUDIT IN ROMANIA AND UNITED KINGDOM

CORINA ȘERBAN (BOICEANU), FRANCA DUMITRU

“TIBISCUS” UNIVERSITY OF TIMIȘOARA, FACULTY OF ECONOMICS

1/A DALIEI STREET, TIMIȘOARA. 300558

corinaboiceanu@gmail.com

Abstract:

Knowing both the fact that the activity of audit is relatively recent in our country , and the complex effects that the adhesion of our country to the European Union implies, the domain of public control and public audit also requires the introduction of new regulations pursuant to the European legislation in the domain. That is why we considered the comparison between the public audit system in Great Britain and that in Romania to be interesting.

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Public sector audit has a key part to play in safeguarding public money, ensuring proper accountability, upholding proper standards of conduct in public services and helping public services achieve value for money, plays an essential role in maintaining confidence in the stewardship of public funds and in those to whom the responsibility of stewardship is entrusted.

The scrutiny of the standards employed in the conduct of public business, with the ever changing public sector environment in the past decades, has led to a focus on propriety, regularity, governance and accountability.

The issue of propriety lies at the very heart of public administration. The frameworks that have been developed to ensure the highest standards of propriety in the delivery of public services have evolved over many years. Propriety is concerned with the way in which public business should be conducted. There are a number of different interpretations of this concept. Dictionary definitions refer variously to “appropriateness”, “rightness”, “correctness in behaviour or morals”, “conformity with convention in conduct”. In the context of public administration, the Nolan Committee has defined propriety as encompassing: “*not only financial rectitude, but a sense of the values and behaviour appropriate to the public sector*”¹. While these concepts of propriety are wide, public sector auditors are primarily concerned with the financial aspects of propriety. This is embodied in the definition of propriety set out in the UK Government Accounting²: “*Propriety is the requirement that expenditure and receipts should be dealt with in accordance with Parliament’s intentions and the principles of Parliamentary control, including the conventions agreed with Parliament...*”

Propriety is outside the scope of the auditors opinion on the financial statements of public entities. In their planning of the financial statements audit, public sector auditors do not plan and perform their work in order to identify possible instances of impropriety, other than where fraud may cause the financial statements to contain material mis-statements.

¹ PUBLIC AUDIT FORUM. Propriety and Audit in the Public Sector, Consultation Paper May 2000, www.public-audit-forum.gov.uk.

² www.government-accounting.gov.uk

Public audit plays an important role in ensuring that those responsible for handling public money are held accountable for its use, through intermediary bodies and ultimately to Parliament and/or the public.

Public auditors have a wide range of responsibilities that may cover not only propriety but also the audit of financial statements, issues of regularity and “value for money”. In all types of audit work, both financial and value for money, public sector auditors aim to:

- provide independent assurance, information and advice to Parliament, local electorates and the public on the proper accounting for, and use of, public resources;
- make a positive difference to the financial management and value for money achieved by public bodies. Therefore the auditor's role is important to the effective delivery of public sector services and use of public funds.

Auditors obtain a general understanding of the framework of governance and standards of conduct within which the entity conducts its activities as part of their understanding of the overall control environment.

While external auditors of public bodies are not required to perform specific procedures for the purpose of identifying improprieties as part of the examination of the financial statements, they remain alert for instances of possible or actual non-compliance with general standards of public conduct which might be significant. Procedures that may bring such impropriety to the auditor's attention include³:

- reading minutes of board and management meetings to pick up on those matters arising from the ongoing review of the board and other committees;
- assessing the entity's control environment, particularly the absence of policies and procedures in relation to areas where there are significant risks of fraud, corruption or other impropriety;
- reviewing the results of internal audit examinations;
- performing substantive tests of details of transactions or balances.

Decentralisation, contracting out, the greater interchange between public and private sectors and more use of short term contracts mean that the assimilation of a public service culture by everyone operating in that environment cannot be assumed. Public servants need to be told what is expected of them, and the message needs to be systematically reinforced.

Hence the necessity of the elaboration of certain norms, standards, known and applied by all specialists who perform audit, especially those in the public domain. In most countries, national standards of public audit pursuant to the standards of International Organisation of Supreme Audit Institutions (INTOSAI), stipulating both the organisation and the functioning of public and/or private audit entities in the respective country.

Public audit in Romania.

The coordination of the activity of Internal Public Audit is developed through the Ministry of Public Finances and the Central Unity of Harmonization for Internal Public Audit (UCAAPI), which safeguards the coordination of the internal public audit activity and has the following tasks:

- elaborating,conducting and applying a unitary strategy in the domain of internal public audit and monitoring this activity at a national level;
- developing the normative framework in the domain of internal public audit;

³ PUBLIC AUDIT FORUM. Propriety and Audit in the Public Sector, Consultation Paper, May 2000, www.public-audit-forum.gov.uk.

- developing and implementing uniform procedures and methodologies, based on international standards, including internal audit manuals;
- developing methodologies in the domain of managerial risk;
- elaborating the Code regarding the ethical conduct of internal auditors;
- advising the methodological norms specific to activity sectors in the domain of internal public audit;
- developing the reporting system for the results of the public audit activity and elaborating the annual report and syntheses based on the received reports;
- performing internal public audit missions of national interest with multisectorial implications;
- verifying the observance of norms, instructions, as well as the Code regarding the ethical conduct of internal auditors by the internal public audit departments and can initiate the necessary corrective measures, in cooperation with the leader of the respective public entity;
- coordinates the recruiting and professional training system in the domain of internal public audit;
- advises the appointment/dismissal of leaders of internal public audit departments in public entities;
- cooperates in its domain of activity with the Court of Auditors and other public institutions and authorities in Romania;
- cooperates with public financial control authorities and organisations in other states, including the European Commission.

In addition to the UCAAPI, the Committee of Internal Public Audit (CAPI), consultative structure, acting to define the strategy and improve the activity of internal audit in the public sector. In accomplishing its objectives, CAPI has the following main tasks:

- debating strategic development plans in the domain of internal public audit and expressing an opinion on its development directions;
- debating and expressing an opinion on the normative acts elaborated by the UCAAPI in the domain of internal public audit;
- debating and advising the annual report regarding the activity of internal public audit and presenting it to the Government;
- advising the plan of internal public audit missions of national interest with multisectorial implications;
- analysing the importance of recommendations, formulated by internal auditors, in the case of diverging opinions between the leader of the public entity and internal auditors, expressing an opinion on the consequences of not implementing the recommendations that they have formulated;
- analysing cooperation agreements between internal and external audit regarding the definition of the concepts and the usage of standards in the domain, the result exchange from the actual activity of audit, as well as the common professional training of auditors;
- advises the appointment and dismissal of the general director of UCAAPI.

External public audit is the activity of financial and statutory audit performed for the public sector by the Romanian Court of Auditors. External audit must perform its activity based on the evaluation of the internal auditor and soliciting to the management of the entity, if it is imposed, certain controlling or verifying actions to finalise their own establishments. Practice in the field recommends that the external auditor should not involve themselves in control activities which they have to solicit to the general

manager, but focus on the audit of performance. In Romanian practice, external audit⁴ focuses on implementing the managerial control system and internal audit into the organisation and respecting their own methodology of exercising these activities.

The activity of financial audit has a special objective of evaluating the manner of formation, organisation and exercising of the internal audit function in an entity, respectively of safeguarding and counseling activities, to establish the extent of reliability on the reports of internal auditors, which contributes to the creation of feedback of the internal audit activity⁵.

The Court of Auditors exercises control over the manner of formation, administration and usage of the state's financial resources, being the public state authority which performs external audit in the public sector. The Court of Auditors functions alongside the Parliament of Romania and performs independently, pursuant of the dispositions of the Constitution and the laws of the country. This institution is professionally independent, the counselors of the Court of Auditors being appointed by the Parliament for a 9 year warrant, their dismissal also being a parliamentary competence. The members of the Court of Auditors are independent in exercising their warrant and irremovable for its whole duration.

The public audit in the United Kingdom

Knowing both the fact that the activity of audit is relatively recent in our country, and the complex effects that the adhesion of our country to the European Union implies, the domain of public control and public audit also requires the introductions of new regulations pursuant of the European legislation in the domain. That is why we considered the comparison with the public audit system in United Kingdom to be interesting

In the United Kingdom Parliament maintains oversight of the use of public funds through the Comptroller and Auditor General (C&AG) who, assisted by the National Audit Office, is required to pay particular attention to issues of regularity and propriety. He also has a role in investigating and reporting on impropriety encompassing fraud, corruption and other forms of misconduct. Reports prepared by the C&AG are considered by the Committee of Public Accounts (PAC), who publish their own reports. The process of scrutiny by the PAC constitutes a significant deterrent against misconduct and acts as a powerful vehicle for promoting beneficial change in the management of public bodies. The Committee take a keen interest in ensuring appropriate disciplinary action has been taken against those responsible for misconduct and make it abundantly clear that the highest standards of conduct are expected in the public service. The vast majority of the Committee's recommendations are accepted by the Government⁶.

Public sector auditors recognize that a close working relationship with internal audit can increase efficiency and reduce the demands on the bodies they audit. Auditors of public sector bodies should, wherever possible, work closely with internal auditors. The external auditor must assess the internal auditor's work before placing reliance on it. In the UK guidance on the work of internal audit is promulgated by HM Treasury for central government, by CIPFA for local government and by the NHS Executive for the NHS, and can be used to assess the work of internal audit. External auditors will be able to make the most extensive use of the work of internal auditors where there is mutual understanding of the important and different role of internal auditors and of the specific

⁴ OMFP nr.946/2005 privind Codul Controlului Intern, OMFP nr.1389/2006

⁵ Ghiță M., Pereș I., Nicolau Cornelia, Bunget O., Florea-Ianc Z., Pereș C., Guvernanța corporativă și auditul intern, Ed. Mirton, Timișoara, 2009

⁶ idem

ways in which their work can be of value to external audit, and a willingness to adjust work programmes where appropriate and feasible. Public sector management has an important role to play in promoting effective co-operation of this nature.

In the public sector a relatively new phenomenon are the audit committees. They and their equivalents have particular value in, among other things, helping achieve mutual understanding in the planning process, because sometimes aspects of an audit plan, such as those relating to the detection of fraud, cannot be discussed with executive management and staff without compromising the integrity and value of the audit. They may, however, be discussed with an audit committee, and this in turn can secure management's co-operation. Both HM Treasury and the NHS ⁷Executive have produced guidance on the use of audit committees⁸.

Normally the public sector bodies can expect feedback from their auditors throughout the audit process. As a minimum, feedback should in the first instance be directed to the line manager within the client. At the completion of key stages of the audit, the client can generally expect the results to be reported to the director of finance, while at the conclusion of the audit findings should normally be presented to the chief executive and audit committee or equivalent committees. Audit committees and their equivalents have an important role in raising the profile of audit reports and securing constructive management responses. HM Treasury has provided guidance on the use of audit committees⁹.

Guidance is available to auditors in the public sector on how co-operation can be put into practice. The Treasury and the National Audit Office have agreed a Good Practice Guide on Co-operation between Internal and External Auditors, and the Audit Commission have published a good practice guide on this subject. That is why in the United Kingdom, the Public Audit Forum was established in 1998, by the four national audit agencies, that is the National Audit Office (NAO), the Northern Ireland Audit Office (NIAO), the Audit Commission for Local Authorities and the National Health Service in England and Wales, and the Accounts Commission for Scotland. It brings together the audit agencies on a purely advisory basis to provide a focus for developmental thinking about public audit. It has a remit to build on the existing co-operation between the national audit agencies to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across their work and to help develop common standards for public audit.

The definition of the Financial Control and Internal Public Audit system in Romania has permanently been supervised by the European Commission, which, through its experts, has formulated a series of recommendations regarding their alignment to the internal control and internal audit standards which were accepted internationally, and the good practice of the EU.

The recommendations, with a major impact, the implementation of which requires the development of a strategical plan are the following:

- a. The coherent and harmonised development of financial management and control systems based on the principles of managerial responsibility;
- b. Focusing the activity of the CAPI on debating and expressing a competent professional opinion on the main strategical components in developing internal audit in Romania (strategic and annual planning, independence of the internal

⁷ National Health Service

⁸ Public Audit Forum, What Public Sector Bodies can expect from their Auditors, March 2000, www.public-audit-forum.gov.uk.

⁹ HM Treasury - DAO GEN 11/99

- auditor, professional training ,the safeguarding of the quality of the activity of internal audit etc.);
- c. The flexibilisation of the methodological framework of internal audit mission performance, with the purpose of increasing functional independence and the exploitation of the professional judgement of internal auditors. (This recommendation was formulated by SIGMA with the occasion of the PEER-REVIEW exercise in 2004, considering an overstandardisation of methodological norms, documents, circuits, responsibilities and others, which limit the initiative of internal auditors in the process of auditing.);
 - d. Centralising the internal audit resources by reducing the current territorial dispersion, configured into many but small (1-2 auditors) units, the focus being more on creating functional audit capacities and less on creating new internal audit units;
 - e. Identifying the needs of forming and establishing the criteria of the qualification of internal auditors, in which the UCAAPI must play a major part;
 - f. The development of cooperation between the UCAAPI and the Court of Auditors, to increase the degree of complementarity between external and internal audit.

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