

THE ROLE OF INTERNAL AUDIT WITHIN PUBLIC ENTITIES

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Abstract:

The auditors have a key role in the development of modern economics and accounting rules in progress. Auditing is a profession that has emerged over the years trying to meet the changing needs which public entities have. Public internal audit activities role is to improve public entities providing management advice for the proper administration of public revenues and expenditures. This paper presents the role of internal audit as a tool in changing the mentality of management and employees of entities.

Key words: internal audit, public entity, observation, diagnosis, counseling.

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INTRODUCTION

The emergence and development of the audit concept is linked directly to the evolution of accounting and the need for an independent control on information of public interest.

Originally, audit emerged from the State's need to control public finances.

Subsequently, the audit experienced a tendency of diversification and expansion and today we are talking about tax audit, production audit, quality audit, and legal audit.

Audit is a term used to designate a professional verification of information, namely situations for expressing a competent substantiated and independent opinion on the basis of reporting to a quality standard.¹

The audit must verify whether the necessary conditions are met in order to ensure the balance of an organization, to investigate the dominion of disorder, adaptation to changes and to assess their safety degree and the risks that an entity may encounter.

Internal audit is a well organized profession with an increasing influence, retrieved in over 90 national institutes which are part of the Institute of Internal Auditors (I.I.A.) created in 1941.

J.B.Thurston, president of the Institute of Internal Auditors, declared in 1941 that the most brilliant perspective of internal audit will be "managerial assistance".

Joseph J Mossis, president of the UK Institute of Internal Auditors said in 1991: "it is clear to those who work within the internal audit function that it has a vital role to play, helping management to take in hand the reins of internal control."²

The internal audit function was established in England and France in the early '60s, being strongly influenced by its origins in financial accounting control.

In the '80-'90 the internal audit function begins to take shape in the entities' activities and its evolution continue to this day.

¹ Dicționar de economie, Ediția a doua, Editura Economică, București, 2001, pg.44

² Jacques Renard - Teoria și practica auditului intern, Ediția a IV-a elaborată prin programul UE PHARE, "Dezvoltarea procedurilor de audit și control intern în România" sub coordonarea MFP, București, 2003, pg.15

In 2004, the Institute of Internal Auditors completed the definition of internal audit which was given in the year 2000 in compliance with the new context in which the corporate governance has evolved.

Internal audit is an internal and objective activity of insurance and consulting, designed to create value and improve the operations of an entity. It assists an entity in achieving its objectives by implementing a systematic and disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

RESEARCH METHODOLOGY

The main research method consisted in reviewing the most important approaches in the specialty literature, articles and studies from the national and international press.

The adoption of a more detailed approach on the role of internal audit was pursued.

Internal audit is a profession that is becoming increasingly powerful, the number of those who practice it being increasingly higher; an evidence of this is the growing number of adherent members to the internal auditors' institutions.

Internal audit shall carry out insurance and counseling missions, and its areas of responsibility are risk, internal control and the entity's management, being finalized through the added value brought to it.

According to the French Institute of Internal Auditors, the audit "is, within an enterprise or a body, an independent activity, assessing the control operations, it is part of the management service".³

Romania's EU integration determined the need to find new ways to optimize financial and economic activities and relevant solutions that will contribute to the removal of certain discrepancies in the activities of public and private organizations.

The introduction of internal audit in Romania is of relatively recent date, falling under the general effort to improve and perfect management, both public sector organizations as well as the ones from the private sector, due to the harmonization of the internal regulatory framework with the European legislation.

In Romania, internal audits covered primarily the bodies and institutions in the public area, this being proved by the existing legislation up to this moment, governing public internal audit.

Internal audit within the Romanian organizations progressively knows an increasingly pronounced development, highlighting, more frequently, the utility of the internal audit function.

Internal audit is defined as independent and objective functional activity, which gives insurance and management counseling for the proper administration of public revenue and expenses, while perfecting the public entity's activities helps the public entity to achieve its objectives through a systematic and methodical approach, which evaluates and improves the efficiency and effectiveness of the management system based on risk management, control and governance processes.

The main objective of internal audit is to assess the internal control system within an entity, at a time, taking into account the potential risk coefficients.

The objectives of internal public audit are:

- objective insurance and counseling designed to improve the systems and activities of a public entity;
- supporting achievement of the public entity's objectives through a systematic and methodical approach, through which the effectiveness of the management system

³ Collins L., Valin G. – *Audit et controle intern. Aspects financiers, operationnels et strategiques*, Ed. Dalloy, Paris, 1992, pg.23

based on risk management, control and governance processes is being assessed and improved;

- assessment of risk management;

Internal public audit is designed to assist the manager of a public entity in identifying and assessing significant risks, contributing to the improvement of risk management systems, as well as to monitor and evaluate the effectiveness of this system.

The internal public audit must evaluate the risks related to operations and information systems of the public entity relating to the reliability and integrity of financial and operational information, operations' effectiveness and efficiency, patrimony protection and compliance with laws, regulations and contracts.

- assessment of control systems;

The internal public audit helps the public entity to maintain an adequate system of control by evaluating its effectiveness and efficiency, thus contributing to its' continues improvement.

The internal auditor, during the audit mission, must consider the internal control procedures in accordance with the mission's objectives in order to identify all deficiencies.

The internal public audit scope includes:

- financial activities or with financial implications performed by the public entity from the time commitments were formed until the use of funds by the final beneficiaries, including funds from foreign assistance;

- establishment of public revenue, respectively the approval and establishment of debt securities and facilities granted to their collection;

- management of public patrimony, as well as selling, mortgaging, licensing or leasing of property from the public domain of the State or administrative territorial units;

- systems of financial and control management, including accounting and the related computer systems.

The internal public audit's role is to help entities to attain their objectives by bringing a systematic approach in evaluating and improving the effectiveness of risk management.

The internal auditor's role is to assist the manager for practical successive approaches already developed and by analysis the ensemble to contribute to the improvement of the internal control system and labor with more efficiency and security. The internal auditor and the manager should be seen as partners, not as adversaries, having the same objectives, including the effectiveness of management and achieving the proposed targets.

Internal public audit, within public entities, has a role to promote change that addresses:

- managers of public entities that are concerned about the performance of the entity they manage and the relationship between the entity and the environment. The role of internal audit is to provide a view on the entity's performance, the gap between the entity and the environment and of the solutions through which that the gap can be reduced;

- managers of public entities that have responsibilities in coordinating the effort for change. The role of internal audit is to formulate optimization solutions for organizational change management, as well as for an efficient and legal management of the risks of this process by increasing the performance of the internal control system;

- employees. The role of internal audit is to provide counseling, by highlighting the elements of added value created as a result of change implementation, by

communicating more effectively the impact and consequences of change, realizing the reduction of resistance to change for change beneficiaries.

Internal audit as an agent of change in public entities performs the following roles: observation, diagnosis, counseling, insurance, stimulation.

The observation role of internal public audit consists in the analysis of phenomena, processes, operations, activities from a critical position, as well as quantifying and interpreting their performances through the legal regulations in force.

The role diagnostics of internal audit requires the analysis of collected relevant observations so that it can reach conclusions on the changes that need to be implemented using the methods, techniques and specific instruments, experience and communication skills of internal auditors, for formulating solutions and proposals aimed at conducting organizational changes without being influenced by the managers' desires or the employees' desires.

The counseling role of internal audit consists in creating added value and improving the public entity' management, risk management, and internal control, without the internal auditor to assume managerial responsibilities.

Internal audit provides the following types of counseling:

- consultancy that aims to identify the obstacles which prevent the conduct of normal course of processes, establishment of causes, the determination of consequences, presenting solutions for their elimination;

- facilitating understanding in order to obtain additional information for in-depth knowledge of the operation of a standard or a normative provisions, necessary for the personnel carrying out their implementation;

- training and professional development to provide theoretical and practical knowledge by organizing courses and seminars on financial management, risk management and internal control.

The insurance role of internal audit gives the public entity's management confidence in the need to achieve changes. Internal audit provides findings on the correct identification of the needs for change, the correct establishment of priorities in the area, design quality and implementation of change.

Internal audit also highlights the positive statements, proposing solutions for continuous improvement of these thus being a major agent of change.

The stimulation role of internal audit consists in proposing the best solutions so that the public entity reaches the established standards of legality, efficiency and effectiveness, but it should not be involved in the management process of their effective implementation. Internal audit stimulates management and its members to implement solutions without actually getting involved in the process of their implementation, thus maintaining its advisory and fairness role.

Internal audit can be a true agent of change in public institutions with the necessary and mandatory condition of being credible.

Internal audit must have specialized knowledge on the subject of change, knowledge in managing change, improved skills in all forms of communication, necessary to seize and encourage change, thereby helping public institutions to progress.

CONCLUSIONS

- The activity carried out by the internal auditor in the public sector is an independent and objective activity that gives public entities a reasonable assurance regarding the functionality of the internal control system, offers advice for improving operations and contributes to adding value to the management act.

- The internal auditor assists the public entity in achieving its objectives assessing through a systematic approach and methodical its processes of risk

management, control and governance of the entity, making proposals to strengthen their effectiveness.

The internal auditor has to inform the public entity's management with respect to any evidence of fraud found during the course of an audit missions.

- Internal Audit is an independent consultancy and objective certification activity intended to improve the public entity's actions, helping it achieve the proposed objectives.

- The effectiveness and efficiency of internal public audit is the result of the combined action of organizing the audit structure and its integration within the public entity, doubled by the quality of the human factor and their successful management.

- The internal audit's role is to contribute to the proper and efficient management of public funds.

- The internal auditor relies on professionalism and efficiency; he is more than just a financial analyst. From risk assessment to analyze the activities' efficiency, these represent the task of the internal auditor to provide objective analysis, suggestions and recommendations based on the results of the audit.

The internal auditor has the role to be rigorous and operates under a very strict code of ethics; he is varied and full of initiative, always seeking to improve his knowledge, always looking to predict professional risks and trends.

- The internal auditor is not only the Manager's right hand in ensuring that policies and procedures are properly carried out and that the risk is kept to a minimum, he is also involved in the coordination activity.

The internal auditor' role and his connections are constantly evolving, developing and changing, being a management consultant, serving as a coach for the public entity's personnel and as a rapporteur for the management.

- The professional auditor has a large degree of involvement and fairness, he solves problems and improves performances, helps the entity function properly and achieve performances, following the possible problems in the future, and he offers the entity a state of safety and comfort.

- Internal audit is a well known instrument for changing the mentality of management and employees within a public entity, from the current state to a new state, the one presumed by the corporate governance concept, meaning that a public entity must be managed as a business, meaning profitable, especially if we are talking about public money.

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