# RISK MANAGEMENT IN PUBLIC SECTOR ENTITIES

**Franca MLADIN,[1] Cristina Mihaela NAGY[2]**
"TIBISCUS" UNIVERSITY FROM TIMISOARA. FACULTY OF ECONOMIC SCIENCES
*E-mail: frankamladin@yahoo.com*[1], c.nagy@tibiscus.ro[2]

**Abstract:**
*The main task of internal public audit is to identify errors and risks in terms of the internal managerial control system.*
*Following the recommendations made by internal auditors, it is intended to increase the efficiency and effectiveness of the internal managerial control system, increase and increase the honesty, regularity, increase the credibility of certain financial information and accounting information, as well as compliance with legal norms in the matter.*
*The general and specific objectives of the internal audit activity aim to evaluate and improve all processes regarding risk management and control, supporting the management of the public entity in identifying and assessing all risks, thus contributing to the process of improving the internal management control system.*

**Keywords**: evaluation, internal public audit, general objectives, specific objectives, auditors, risks, errors.

## INTRODUCTION

The paper aims to clarify how internal audit supports the risk management process, analyzing and assessing risks for the purpose of planning internal audit activity. Identifying risks within a public sector entity has the role of anticipating and preventing potential non-compliance with legal provisions before they become significant.

In this way, performing an internal audit contributes to supporting the decisions of the entity's manager and achieving the entity's general and specific objectives. The complexity of the economical processes determines in the immediate perspective a growth of the role of the audit to the professionalization and the institutionalization of this kind of human resources management services[1]

## INTERNAL AUDIT

The structure of the internal audit plan must include the elements listed below[2]:

- what is the purpose of the internal audit action;
- what are the general and specific objectives for all internal audit missions;
- how to identify and describe all activities and all operations that will be subject to the internal audit activity;
- what is the duration of an audit mission;
- what is the period subject to the audit mission;
- clear specification of the number of auditors who will carry out the audit mission;

The audit activity plan is carried out on three levels:

1) annual planning: includes those missions that will be carried out next year. Each internal audit mission includes objectives, identification of activities, personnel and planning of personnel examination;

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[1] Ghica, Elena Doina (2015). *The necessity of human resources audit, Annals Economic Science Series , vol XXI, Timisoara, p.186*

[2] H.G. nr.1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

2) long-term strategic planning, respectively, once every 5 years, according to the regulatory framework, the assessment of the internal audit function is carried out;

3) medium-term strategic planning: according to the law, once every 3 years, all auditable activities must be audited depending on the importance and danger of damages or events.

A good internal audit plan[3] is considered to be a plan that has been tested in critical situations, when a crisis occurs.

The updating of an internal audit plan is mandatory depending on[4]:

1) all changes that are made from an organizational point of view, as well as all changes from a legislative point of view;

2) requests that are transmitted by UCAAPI, and which refer to: the replacement, introduction, elimination of missions that are already included in the internal audit plan.

The general audit rules include a methodology that is common to the risk assessment process, to the procedures developed for all procedural activities and to the preparation and development of the Internal Audit Plan[5], and to the conduct of an audit mission in the phase of developing the Internal Audit Program, by going through the following steps:

- Identification of all auditable activities;
- Identification of all inherent risks regarding procedural activities;
- Establishment of all factors regarding risk analysis as well as identification of all assessment levels;
- Establishment of assessment criteria for all risks;
- The classification method in terms of the analysis of all risks regarding the activities carried out by the entity that can be processed;
- The hierarchy of all activities that will be audited;
- Elaboration of the topic regarding the auditable activities in detail;

Elaboration and updating of the annual internal audit plan[6]:

a) The identification of all auditable activities is based on the analysis of the ROF, the analysis of the organizational chart, the study of the act of establishment, the organizational decisions. Internal auditors will elaborate the List of activities within the entities[7].

b) Identification of all inherent risks regarding the procedural activities, here changes are identified and taken into account such as: methods, human resources, entities change and at the same time risks can change.

The quality of the audit[8], assessed both by the size of discretionary commitments and by the audit opinion expressed, reflects a similar connection with the indicators associated with the development of sustainability actions at the level of the analyzed companies.

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An important part of the operational process consists of the assessment of all risks and all internal and external factors that may negatively affect the entity's objectives must be identified, examined and evaluated.

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[3] Ionescu, Luminița. Nica, Dumitru (2021). *Audit public intern*, Editura Fundației România de mâine

[4] H.G. nr. 1.086 din 11 decembrie 2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

[5] Ionescu, Luminița. Nica, Dumitru (2021) *Audit public intern*, Editura Fundației România de mâine

[6] H.G. nr. 1.086 din 11 decembrie 20H.G. nr. 1.086 din 11 decembrie 2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

[7] Maria Alina Caratas, (2020), *Audit intern, control intern si cultura organizationala*, Editura Economică

[8] Mihai-Bogdan Afrăsinei, Mihai Carp, Iuliana Eugenia Georgescu, (2023), Influenţa raportărilor de sustenabilitate asupra calităţii auditului, Revista Audit Financiar

For any procedural activity, a working procedure is established, as well as for internal controls.
This stage is materialized by developing and drawing up the table Identification of risks associated with auditable activities.

c) Establishing all factors regarding risk analysis as well as identifying all levels of assessment, this is achieved by complying with the General Methodological Norms regarding the quantitative assessment method, as well as the qualitative assessment method, as well as the assessment method regarding the internal managerial control system.

This stage is also completed by developing the Situation regarding all analysis factors regarding risks and presenting their assessment levels.

d) The method of establishing all risk assessment criteria, which is achieved by applying at least one assessment level to all risk analysis factors.

The establishment of the assessment criteria for the level of all risks is achieved as follows: it is applied to absolutely all risk analysis factors.

e) The determination of the total risk score is calculated as follows: by applying the weighting of the assessment level for all risk factors on all risk levels in order to establish the total score. This situation will also be materialized in the development of the situation Determination of the total score.

f) The classification based on the analysis of risks regarding all procedural activities, this is done by the auditors based on the scores obtained. We specify that these scores were established taking into account the order of their impact. After this phase, the auditors develop the Classification of all activities and all risks.

g) Hierarchy of all audited activities: is carried out by auditors based on the Classification of activities and risks. Internal auditors take into account the total number of staff and the available time.

h) Elaboration of the theme regarding auditable activities in detail. Internal auditors, based on the Statement of Strengths and Weaknesses, draw up the Detailed Theme of Auditable Activities.

i) Elaboration and updating of the annual internal audit plan. In order to elaborate and draw up the plan, internal auditors must establish the audited period with regard to each objective, the time allocated to the mission and the number of auditors who will participate.

The management of the institution, based on risks, will approve the audit plan drawn up by specialists.

Public institutions in their activity identify a large number of risks. These are internal risks as well as external risks.

The entity's management must identify all these risks, as well as take measures to mitigate and eliminate them in the order of their occurrence and the imminence in terms of their occurrence.

Risk is defined as the problem or action that negatively affects the general and specific objectives established by an institution.

Internal auditors must, during the conduct of audit missions, identify, counteract and be concerned about the existence of these risks.

Auditors[9] are among the three main obstacles that contribute to discouraging accounting manipulations, along with the company's governance system and accounting regulations.

Risks are part of the operational process and must analyze and examine both risks that may come from within the institution and risks from outside it, as these may have negative effects on the entity's activity.

Examples of internal factors: the nature of the entity's activity, major changes in an entity, personnel qualification and training, employee efficiency and performance, poor management, etc.
Examples of external factors: the country's economic situation, legal and technological changes.

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[9] Mihai-Bogdan Afrăsinei, Mihai Carp, Iuliana Eugenia Georgescu, (2023), Influenţa raportărilor de sustenabilitate asupra calităţii auditului, Revista Audit Financiar, Nr. XXII, Nr. 1(173)

entity's management must identify risks and conduct an analysis on them, and the specialized personnel within the internal audit department are obliged to analyze, redo, examine the risk analysis method and also identify and detect a managerial internal control system.

The way in which all risks are assessed is constantly a challenge for auditors and for the specialized personnel within the internal managerial control service, under these conditions it offers the entity's management real audit opinions as well as the provision of performing services.

In order to carry it out efficiently and correctly, it is necessary to involve experienced auditors, better knowing the audited institution and the risk assessment methodology.

The conclusions reached by internal auditors following the recommendations established by preparing the required and verified working documents will later materialize in the Internal Audit Report.

Any error or mistake that has a negative effect on the entity in order to achieve its objectives represents a risk.

The methodology[10] that ensures risk control within any entity is risk management.

Identified deficiencies, exceptional and unforeseen events that may occur in the conduct of the entity's activity, as well as any deficiencies regarding its activity, can be defined as risk factors.

Several risk factors are known internationally, including:

- the entity is guided and managed by a team that is not cohesive;
- employees do not know and are not informed of the entity's strategy;
- within the entity, employees do not know their tasks and responsibilities established by the job description
- the IT circuit of documents is not transparent, not well-developed and not coherent;
- the legal regulations in force are not respected by the entity's employees;
- the personnel employed within the entity do not participate in professional training courses, are not professional;
- the products and services offered by the entity are no longer competitive;
- the entity's activity is disrupted by the departure of employees, lost documents and acts, natural disasters, etc.
- the existence of ineffective management.

Currently, risk management presents as trends: the involvement of all employees in the organization's activity in the risk identification process.

Currently, it is recognized by the entity's leaders that an efficient risk assessment system contributes significantly to mitigating crises that may arise or occur.

Often, internal auditors intervene when it is too late, which is why they try to identify all phenomena that can produce risk in time, trying to take responsibility and arouse the interest of all audited entities.

In the medium and long term, it is desired to reduce all deficiencies, all shortcomings, which are causing risks.

By involving the executing personnel, it will be possible to carry out a more efficient activity of identifying risks but also of managing them.

Risk management requires the following priorities:

- policies to be clearly established, to allow the identification of all risks, major risks, risk bearers, examination and analysis of a period, assessment of other possible risks;
- development of procedures and methods that are capable of managing and controlling existing risks as well as future ones;
- implementation of auditing and reporting systems for all risks.

[10] ORDIN SECRETARIATUL GENERAL AL GUVERNULUI nr. 600 din 07 mai 2018 pentru aprobarea Codului controlului intern managerial al entităţilor publice**), publicat în MO nr. 387 din 07 mai 2018 cu modificările şi completările ulterioare

## CONCLUSIONS

Internal audit contributes both to strengthening the credibility of the public entity in front of internal and external stakeholders and to compliance with legal regulations and provisions and international internal audit standards.

In order to achieve professional control, it is necessary to make each employee and management accountable, with internal auditors having the role of helping.

Each performer must identify the risks that may arise in their activity, because it is not possible to permanently control each employee.

Currently, risk assessment, in addition to the internal control method used, also emphasizes the self-control of all employees involved, the implementation of key controls, but also the adaptation of existing controls in relation to the evolution of risks.

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