

# Internal Public Audit System in Public Institutions in Romania

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## **Abstract**

*In writing this article, we set out an approach to the evolution from international to national, of the definitions of internal audit from several perspectives: the standard international definition and the definition of public internal audit in Romania, as a vital integral part of the modern governance system. Concepts improved over time that give them a wider applicability and a wider availability regarding the development and efficiency of public institutions in terms of internal audit and internal control.*

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## **1. Introduction**

The starting points that were the basis for approaching the hypotheses refer to: the defining aspects of internal audit at the level of public institutions, key concepts, delimitations, definitions, from a wide variety of sources, both nationally and internationally, internal audit being seen as an effective tool for risk management in the process of corporate governance of public entities

## **2. Internal audit-basic concepts**

Over time, several definitions of internal audit followed one another before its notion could stabilize.

Thus, according to a first definition, "Internal audit is an internal device within the enterprise (Renard, J, 2003) that aims to assess the correctness of accounting information, ensure the security of accounting operations, ensure the integrity of assets and issue opinions on the effectiveness of information systems.

This definition, on the one hand, wrongly regards audit as a "device" and not as a "function", and on the other hand confuses the roles of internal audit (assessing, judging) with the objectives of internal control (insure, guarantee).

Another definition is that "according to the classical theory, the internal audit assumes by mandate a part of the management control responsibilities"

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(Renard, J, 2003) which creates ambiguities by not clearly specifying which "part of the responsibilities" will be delegated to the internal audit and, on the other hand the word "control" leaves ambiguous what it refers to (type, scope, objectives)

A third definition of the IIA states that "Performed by an enterprise service, the internal audit is to verify that the rules set by the enterprise itself are complied with" (Renard, J, 2003), thus reducing the role of the audit to a simple verification of compliance of operations, rules and procedures.

In 1999, the I.I.A. from the U.S.A. issued a new definition of internal audit, following a study of 800 students, coordinated by auditors from Australian universities, as follows:

Internal audit is an independent and objective activity, which gives an organization assurance in terms of the degree of control over operations, guides it to improve its operations, and contributes to adding value.

The internal audit helps this organization to achieve its objectives, evaluating, through a systematic and methodical approach, its risk management, control and management processes, and making proposals to strengthen their effectiveness."

The definition given by IFACI that appears in the lexicon "Audit words" is the following: "Internal audit is within an organization a function exercised in an independent manner and with an internal control evaluation mandate. This specific approach competes with good control over the risks of to those responsible"

According to the new International Professional Practices Framework (IPPF) adopted in 2007 by the IIA, internal audit is defined as: "an independent objective assurance and counseling activity, designed to add value and drive the improvement of the organization's activities. It assists the organization in achieving its objectives through a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes".

The current definition of internal audit was adopted by the IIA in June 1999 and taken over in Law no. 672/2002 on public internal audit in Romania [6], being the following: "Functionally independent and objective activity that provides assurance and advice to management for the proper management of public revenues and expenditures, improving the activities of the public entity; -a systematic and methodical approach, which evaluates and improves the efficiency and effectiveness of the management system based on risk management, control and management processes.

### **3. International organization of internal audit**

The IIA developed the internal audit standards by going through several stages whose brief chronological development was the following:

- the objectives and scope of the internal audit were defined in the "Statement of Responsibilities" in 1947;

- the elaboration of the "Internal Audit Standards" was made in 1974, in a first form;
- as a result of the evolution of internal audit worldwide, it was necessary to revise these standards, successively in 1981, 1991 and 1995 and 2002 respectively.

The updating of professional standards and norms, carried out in 2002, was made on the basis of the study carried out by a working group established by the steering committee of the IIA, which carried out its activity during 1999-2002.

Following the conclusions and results of this study, the audit function underwent a series of changes, this becoming part of risk management, and the purpose of internal audit was transformed from detection to prevention of major risks.

At the same time, the responsibility of the internal auditors regarding the performed evaluations was transferred to the general manager, who has the mission of implementing the established recommendations / objectives.

In France, IFACI developed in 1999 the Professional Rules of Internal Audit, which include Practical Methods of Application, optional for practitioners of internal audit but accepted as "good practice recognized in the field", these being in themselves only practical advice and not standards.

#### **4. Economic and social peculiarities in the evolution of the internal public audit in Romania**

In Romania, internal audit appeared after 1999, as a new notion and structure of harmonization with Western cultures, gradually managing to distinguish itself from other concepts: financial management control, internal control, external control, inspection, etc.

Thus, the appearance in Romania of the internal audit, as a new notion and structure on the background of the harmonization of the internal normative framework with the European legislation, is defined in GO no. 119/1999 as an "activity organized independently in the structure of a public institution and in direct subordination of its head, which consists in performing verifications, inspections and analyzes of its own internal control system, in order to objectively evaluate the extent to which it ensures meeting the objectives of the public institution and using resources economically, effectively and efficiently and to report to management the findings made, the weaknesses identified and the proposed measures to correct deficiencies and improve the performance of the internal control system".

Government Ordinance no. 119/1999, is considered as the "birth certificate" of the internal public audit, thus laying the foundations of this activity in our country, establishing for the first time the attributions and competencies of the audit bodies, but without delimiting them from those of internal control and, in particular, those of financial management control, which has generated some confusion in notions and approaches, as follows:

- the specified normative act does not refer, exclusively, only to the internal public audit, but also to the preventive financial control;

- in defining the concept of public internal audit, the "inspections" are mentioned as own activities of the audit structures, an expression likely to give rise to confusions of identification and interpretation of the two concepts.

The concept of internal public audit was restored in its rights, in harmony with similar European regulations, by the entry into force at the beginning of 2003 of Law no. 672/2002 on public internal audit, which is defined as "functionally independent and objective activity, which provides assurance and advice to management for the proper management of public revenues and expenditures, improving the activities of audited structures; helps the audited unit to achieve its objectives through an approach systematic and methodical assessment and improvement of the efficiency and effectiveness of the management system based on risk management, control and management processes "

The current regulation, accepted by the European Commission, is organized in six chapters and harmonizes the internal public audit of public institutions with the EU, by defining the organization and conduct of internal public audit, as well as the status of internal auditors and their incompatibilities.

In accordance with Art. 24 of Law no. 672/2002, according to which "within 90 days from the date of entry into force of this law, the Ministry of Public Finance elaborates general methodological norms regarding the exercise of the internal public audit, by Order no. 38/2003, (M. Of.No 130 bis / 2003) the Minister of Public Finance approved the General Rules on the exercise of the activity of public internal audit.

In order to eliminate some imperfections, OMFP no. 38/2003 was amended and supplemented by OMFP no. 423/2004 for the modification and completion of the General Norms regarding the exercise of the public internal audit activity, approved by OMFP no. 38/2003.

During 2012-2013, several normative acts were adopted with a significant impact on the organization and functioning of the public internal audit activity, as follows:

- GEO no. 26/2012 on some measures to reduce public spending and strengthen financial discipline and to amend and supplement certain normative acts
- GD no.1.183 / 2012 for the approval of the Norms regarding the cooperation system for ensuring the public internal audit function
- GD no.1.299 / 2012 for the approval of the Norms regarding the coordination and development of the processes of national attestation and continuous professional training of internal auditors from the public sector and of natural persons.
- GD no. 1086/2013 - approval of the General Norms regarding the exercise of the public internal audit activity.

As a result of these changes, the internal audit activity in the local public administration is organized and carried out by:

- own internal public audit department, organized as a distinct structure, with a minimum of 2 positions;
- cooperation through the joint exercise of the public internal audit activity by several entities, one having the role of organizer.

## 5. Modern type of public internal audit

In Romania, the law provides for the following types of audit:

- system audit - evaluates the management and internal control systems, in order to establish whether they work economically, effectively and efficiently, identifying deficiencies and formulating recommendations for their correction;
- performance audit - examines whether the criteria established for the implementation of the objectives and tasks of the public entity are correct and assesses whether the results obtained are correlated with the objectives;
- regularity or compliance audit - examines actions with incidents on public funds or public patrimony, in terms of compliance with the principles, procedural and methodological rules applicable to them.



**Figure 1. Modern types of public internal audit**  
(Source-authored)

## 6. Objectives and scope of activity of public internal audit in public institutions in Romania

According to the provisions of art. 3 of Law no. 672/2002, the objectives of the public internal audit are:

- a) objective assurance and counseling, intended to improve the systems and activities of the public entity;

b) supporting the fulfillment of the objectives of the public entity through a systematic and methodical approach, through which the effectiveness of the management system based on risk management, control and administration process is evaluated and improved.

The scope of public internal audit includes:

According to the provisions of the normative acts mentioned above, the public internal audit department audits, at least once every three years, without being limited to the following:

a) budgetary and legal commitments from which derive, directly or indirectly, payment obligations, including from Community funds;

b) payments assumed through budgetary and legal commitments, including from community funds;

c) the sale, pledge, concession or rent of goods from the private domain of the state or of the administrative-territorial units;

d) the concession or rental of goods from the public domain of the state or of the administrative-territorial units;

e) the establishment of public revenues, respectively the manner of authorization and establishment of debt securities, as well as the facilities created for their collection;

f) allocation of budget appropriations;

g) the accounting system and its reliability;

h) the decision-making system;

i) management and control systems, as well as the risks associated with such systems;

j) computer systems.

There is no doubt that the audit, through its sphere of activity and the objectives it has to achieve, acts for the benefit of the entity manager, presenting to him with objectivity, professionalism and independence, the risks associated with the activities, providing him, through the formulated recommendations, solutions to remedy the dysfunctions found.

## **7. Carrying out audit missions**

The specific missions are performed on the basis of the annual plan for exercising the internal public audit in the respective public entity.

The draft internal public audit plan is elaborated by the specialized department, based on the risk assessment associated with different structures, activities, programs / projects or operations, as well as by taking the suggestions of the head of the public entity, by consulting with hierarchically superior public entities, taking into account the recommendations of the Court of Auditors.

Once approved by the head of the public institution, the draft audit plan is transformed into the annual internal public audit plan of the respective entity.

In addition to the missions planned and approved by the audit plan, ad-hoc audit missions are also carried out, respectively exceptional missions, not included in the Annual Public Internal Audit Plan.

In carrying out the audit missions, the internal auditors carry out their activity on the basis of a service order, issued by the head of the public internal audit department, which explicitly stipulates the purpose, objectives, type and duration of the public internal audit mission. audit. The development of the internal audit missions is performed in accordance with the scheme presented in figure no.2 - Carrying out the internal audit mission, the four stages are briefly presented below.

In the preparation stage of the internal audit mission, the data and information are collected and the documents provided by the general norms are elaborated. Of these, the Risk Analysis procedure stands out as important

- identification of the audible objects, respectively of the activities and possibly of the operations, structured on objectives;
- identifying the risks attached to these activities / operations, assessing and determining their levels;
- their classification and hierarchy in order to select the audible objects, which will represent the Theme of the internal audit mission.

Based on the theme adopted for the audit mission, the Preliminary Program of the on-site intervention is elaborated, which will focus on the testing activity in order to establish the audit evidence, report the results of the audit activity and follow the implementation of the recommendations.

- In the on-site intervention stage, information is collected and processed, evidence is collected, testing on established samples and elaboration of worksheets, questioning and interviewing for the analysis and actual evaluation, in the field, of selected audible objects, to obtain internal audit evidence.

The testing takes the form of verifying the documents and records taken from the sample, analyzing the data and information obtained, evaluating the efficiency and effectiveness of the control systems. Internal, of the responsibilities regarding their organization, activity that materializes in the elaboration of the checklists and of the control lists, of the internal control questionnaires and of the interviews for the orientation of the audit activity, and of the relationship notes for obtaining additional information.

All these documents will constitute audit evidence and on their basis the finding forms will be prepared - Problem Identification and Analysis Sheet - FIAP and the Form for Finding and Reporting Irregularities - FCRI, which will be included in the Internal Audit Report.

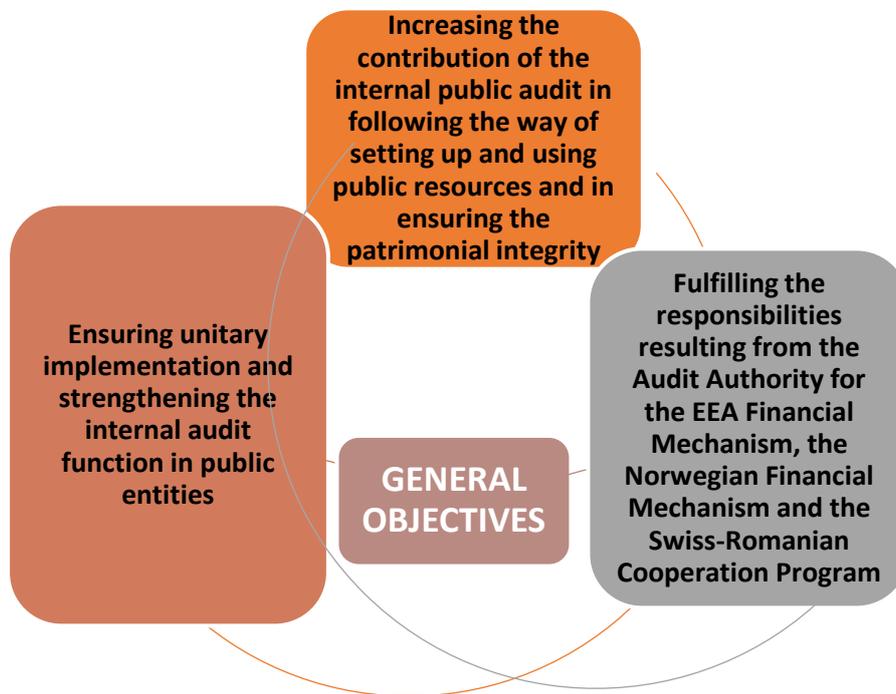
- In the stage of elaboration of the Internal Audit Report, the aim is to structure it on the Theme in detail of the audit mission obtained in the Risk Analysis procedure and the transfer of FIAPs and FCRI, with the specialized comments of the internal auditors in the report. a standardized manner, to facilitate its use by general management and line management.

- In the follow-up phase of the recommendations, it is ensured that the recommendations contained in the Internal Audit Report are transferred to the Follow-up Sheet of the recommendations and will be implemented exactly within the established deadlines and that the management evaluates the risk of non-implementation.

Also, the team of internal auditors will supervise the Action Plan and the Calendar for the implementation of the recommendations not only regarding the established responsibilities and the deadlines for their implementation, but also for the concrete ways of implementing the recommendations. In practice, the activity of following the recommendations continues until the implementation of all the recommendations or until the beginning of a new internal audit mission.

## 8. Conclusions

The development and consolidation of internal audit in the public sector in the period 2018-2020, aims to achieve three general objectives.



**Figure 2. General objectives regarding the Development and consolidation of internal audit in the public sector in the period 2018-2020**

This, internal audit is defined as an independent activity, assurance on the achievement of objectives and consulting, an activity designed in order to add value and improve the activities of an organization.

When assessing internal control, the internal audit shall determine:

- whether the internal control has detected all risks;
- whether the most appropriate procedures have been found for all identified risks;
- if the controls in certain activities are missing;

The internal audit thus helps the organization to achieve its objectives, giving the departments of the organization, the Board of Directors, the Board of Directors an independent and objective opinion on risk management, control and governance, measuring and evaluating their effectiveness in achieving the organization's objectives.

Internal audit has three main concerns:

- reports to the management at the highest level because it is the one who can make decisions, respectively to the chief executive or the Board of Directors;
- evaluates and supervises the internal control system;
- provides advice for improving management, based on the analysis of the risks associated with auditable activities.

The findings and recommendations of the internal audit are useful to the management line in the audited areas, especially regarding the improvements regarding the risk management process, which will ensure and guarantee an added value to the organization and risk monitoring, must also understand and supervise the functionality of the Internal Control System which is the essential element for implementing the principles of Governance.

The existence of a modern legal framework and of norms and procedures developed both in accordance with international auditing standards and good practice in the European Union will have to be fundamental guarantees for the internal public audit to be a real "tool". Of the change within the public entities, even if in the internal audit activity at present, dysfunctions are identified at the level of some public entities from Romania.

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