

# PUBLIC INSTITUTIONS AND INTERNAL AUDIT

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## ABSTRACT

The aim of the present work consists in the methodological study of the instruments for the internal public audit. This one, through its specific test methods, analyzing strength or weakness of each component and understanding of operations and significant risks, is a valuable resource for helping the public entity to assess its internal control, in order to verify the structure, the functionality, the commitments assumed and also the documents resulted from that activity. Also, as part of internal control, internal public audit checks reporting of the information in the internal and external medium of a public entity regarding the activities, operations, results, schedules and changes of budgets, policies, strategies and objectives achieved, setting priorities, analysis of indicators and explanation or interpretation of their results. The research theme is important for the audit literature. As regards the theoretical basis, public internal audit applies to all central and local public institutions. Also, it gives assurance and advice to public administration bodies for judicious management of revenue and public expenditure, thereby improving their business. The applicative value of work consists in the fact that it issues objective and fundamental recommendations to correct the found irregularities, stating the consequences and in this lies *the value of the hereby study*.

**Keywords** – internal public audit, public institution, information, reporters, techniques.

**JEL Classification** – M42.

**Paper type** –Literature review

## Introduction

Public Internal Audit is part of internal control, which helps in assessing the risk at all levels of an organization and improves quality of the control environment, this activity assuming understanding of interrelationships between different types of control, understanding of the dangers associated with the best integration and operating, supporting the achievement of results which can lead to efficiency and effectiveness for the performance of the control system. (Bolchi, Eduard Lucian, 2009, p. 47)

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Public authorities shall provide progress reports on their activities, on their achieved results, steps taken in order to achieve the given objectives, the use of data-including electronic form, the disclosure of the general and specific picture of the current and future position, including the performances achieved in the conduct, of its own processes and operations (Renard, J., 2002)

Internal public audit is exercised over all activities in a public entity, including the activities of subordinates, on the formation and use of public funds and public property management. Whatever type of audit is being conducted, public auditors must put together in their work file sufficient documents with probative value, especially with regard to the planning documents audited, the auditor's work and findings (Ghita, M., Vasile, E., Smith, M., 2004: p. 31-32).

### **1. Methods of verification of information reporting**

Verification of information reporting is made through several methods: assessment of means how the performance indicators are achieved; tracking congruence between management, schedules and reports; examining the consistency of internal reporting, respectively external; paying attention to the ways of writing the reports (Ghiță, M., Popescu, M., 2006).

In a first phase, the evaluation is done by examining how the staff from different areas of activity fulfill their own responsibilities, seeking to achieve best results, respecting the form of duties and ethical values, in a word their organizational culture.

Thus, the ways of achieving efficiency include:

- Determining, setting targets to be achieved;
- Permanent monitoring of the road map in achieving the activities, as far as employees and results of the entity are concerned;
- Measuring, counting, reviewing and assessing key factors, according to quality standards;
- Leadership by own example, given by management, which should provide a powerful example in assuming the responsibilities, attaining performance plans and goals set before;
- Recognition, reward and promote of outstanding results obtained in carrying out procedures and business processes.

A second method involves the stability of the multi-annual reports, as represented by the pillars of trust and safety management system, this resulting in becoming performant.

Internal public audit checks if previous records and the use of the same units of measure helps the institution to develop strategies throughout an annual cycle, estimating the achievement of goals for the future, by tracking progress and scaling actions, in order to assess the results.

Through the third method, the public internal audit controls using the same general indicators in order to align them and avoid the double standard.

Thus, for internal reports there will be made more detailed assessments, according to management goals, and for external reports there will be used several comparisons or parallels.

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This practice minimizes the appearance of inefficiency in the reports made for the management line and ensures the monitoring from outside the entity for legislative compliance.

And last but not least, an appropriate reporting involves generating useful information because on the conclusions drawn, the management will be able to take decisions or give instructions in full knowledge of the facts. The audit will control how briefings are given to

the management by entity structures in relation to: the presentation of results, coverage of all necessary elements in question, performance analysis and multi-annual continuity.

Description or declaration of a coherent image, clear and balanced implies careful planning and drafting - in a way as to attract the readers' interest, following legislation, policies, schedules, priorities, strategies, trends, objectives / targets, key indicators performance - the results obtained and other specific benchmarks established by the entity or by the government and ministries. In this context, reporting information will be made in connection with any questions that may explain the occurrence of a fact in connection with the activities of the institution, such as: who?, why?, where?, when, how?, while having the following characteristics:

- clarity, which will provide final results validated;
- fullness to identify essential elements, having an impact both inside and outside the entity;
- Measuring in terms of progress quantification and proposals of improvement in order to achieve and maintain performance.

Some public institutions can not provide complete records about their activities, including reporting performance indicators, because of secrecy of service or work with classified information (in areas involving security, public order and defense), often being used this formula: no events assuming success in business, through specific processes carried out involving information, prevention and active defense of their targets.

### **2. Specific techniques used to examine the internal audit reports**

The instruments used to examine the internal audit reports can be indicators on the following issues, namely:

- economic values produced and distributed, including revenues, operating costs, salary expenses, investments, taxes, fees and other payments made or due;
- S.W.O.T. analysis on risks and opportunities for activities of the institution, resulting from internal and external environments, which are in permanent change;
- human resources policies;
- development and impact of infrastructure, facilities or basic services;
- understanding and describing of the economic results obtained directly and indirectly;
- phased implementation processes of goods and services;
- the number of incidents and their consequences on: non-compliance laws, including procedures, regulations, codes of conduct promoted by the institution, etc.

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In this context, the audit will evaluate all consecutive reports of the activities of the public organization, and in addition to the established tools, will also use:

- identifying signals or expressed opinions, existing outside the entity about its image;
- the coordination and management services in private and per whole;
- highlighting the work of each employee, of computer applications and of the associated structures of the entity;
- checking the link between stated goals, set strategies and undertaken processes;
- establishing interdependencies between accounting and non-financial data and evaluate the effectiveness and cost effectiveness of the organization;
- comparison of objectives, indicators and results with previous periods of activity, general standards and other reporting institutions with similar tasks;
- keeping the reference in reporting the information that generated all management decisions;
- meeting established performance indicators.

Statistical research can be used by internal auditors of the business in terms of planning goals and results, the profile data being examined in terms of the degree of accuracy, reliability, accessibility, timeliness, and the relationship between various terms and their subgroup classification.

Reiterating the above stated, it will be analyzed, by comparison with previous cyclical periods:

- the income and expenditure, together with indicators of economy and expenses;
- the cost of administering assets (assets and liabilities), represented by the quantity, quality and prices of entering items and the efficiency and effectiveness output;
- communication on risk management;
- statistical structure itself can be evaluated in terms of collection, access, modification, storage and reporting of information.

The financial statements provide information about position, results, performance, changes made, the position of the public institution at some point, in its activity.

The verification of public expenditures will be considered:

- budgets and approved by the officer;
- documentation and means of calculating, including the overruns, the consumption of resources and results;
- compliance with the contracted quality and quantity, and insurance of inventory items;
- rapidity or mode of action in real time of the internal audited structure;
- establish links between financial and non-financial data and evaluate the effectiveness of the institution.

Corrections to the financial situations present risks and opportunities for the public authority, investors and shareholders, and risks must be examined from the perspective of changes, in combination with the whole environment of the institution and in association with the legislation. (Dinga, Emil, 2003)

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In terms of the system analysis, it uses a series of specific means for the steps of the system project:

- modeling, using a set of mathematical statistical and economic techniques used to determine a representation of an objective reality, being a perfect description of reality, basic and simplified in order to forecast future results and relationships;
- simulation is a technique for testing, evaluation and handling of a real system through mathematical and logical testing of models in order to observe and study the dynamics of the system's behavior in the future;
- methods and techniques of collecting individual data such as interview, questionnaire, group dialogue, checklists;
- S.W.O.T. diagnostic analysis aims to a more accurate characterization of the system, highlighting the positive aspects but also the negative ones, the formulation of intervention methods to enhance performance and results;
- computer methods, which are to be found in analyzing and designing more efficient systems generally, and in making expert systems;
- psycho-sociological methods, investigation of interpersonal and group relationships, decision-making, behavior and training, selection, testing, evaluation and promotion. The public institution viewed as a whole, corporative led, can be decomposed into several parts and in turn, can be regarded as a subsystem of an industry or national economy, in connection with other multiple and complex economic and administrative units.

Also, sensitivity analysis takes into account the fact that the value of performance indicators from the project is determined by several key factors, consisting of changing certain variables and recalculation of performance indicators related to planning under new conditions, with various simulations based on possible changes of variables.

Thus, through these measurements it shall be determined the influence of each determinant over the outcome of the model and it shall reach to identify the determinants which, in the decision of selecting a strategy are very important, having a strong effect or high uncertainty, the method being useful to examine the existing risk in a project of a product / service, by comparison with other similar cases and situations.

Cost-benefit analysis is based on the comparison of well-defined cases with one or more alternatives.

In light of those presented, there will be considered the following analytical steps:

- specify the set of alternatives;
- cataloging inputs, outputs and selection of measure indicators;
- quantitative estimation of the inputs and outputs throughout the project;
- monetary assessment of all inputs and outputs;
- update the value of benefits and costs;
- calculation of indicators for each alternative;
- risk analysis and drawing of conclusions.

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For each variant, all cash flows used in a period of time are identified, examined and compared in a spreadsheet, and after payment of all debts, rates and taxes will result in net present values, with three alternatives of interpretation:

- higher than well-defined cases, in which case the alternative is economically advantageous;
- the emergence of equal values, in which case the economic alternative is characterized by savings;
- smaller than the base case, in which case the alternative solution has no financial advantages.

### **3. Conclusions**

Concluding the above, to improve the reports submitted by the public internal audit, we consider the following aspects:

- training employees on the responsibilities of activities;
- documentation used to determine: planning, policies, priorities, indicators and drafting correspondence, legal compliance, etc.
- quality of work procedures that form a systemic whole, from registration, identification, collection, comparing, reviewing and processing operations;
- exposure modes or editing, in terms of: shape, overall look and content to be consistent, concise and balanced.

As regards the internal audit recommendations reported in management of the institution heritage, there will be considered:

- strengthening internal control in financial accounting;
- reviewing all the vectors with common origin and form a common reference system;
- better ways of explaining the objectives to be attained;
- fill gaps for reporting the results;
- verifying and defining the links between policies, strategies and performance;
- use of applications, guidelines, manuals, regulations and business reevaluation activity processes;
- reviewing strategies, policies, strategic planning and goals of the entity;
- identifying the benefits and significant risks;
- testing and evaluation of property insurance;
- tracing links with partners and co-contractors, defining or determining the roles, rights, responsibilities and appropriate favorable terms;
- quantitative and qualitative analysis, assessment of the causes and significance of importance / influence of prices;
- identification, individualization, any better interpretation of the given indicators;
- critical assessment of quality and performance indicators to ensure that they include in a balanced manner all issues and do not distort the truth;

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- use of additional quality indicators in order to verify the first ones and determining costs;
- conscientious attention in choosing methods for determining indirect costs;
- indicators and regular comparisons with the results reported by inmates and other entities with similar profile.

In the reporting the entity's objectives will be considered the following:

- determine the methods and means of quantifying the costs or charges, per unit, global and additions;
- monitoring the efficient and effective management of input and output prices;
- providing financial and non-financial information in the same reporting;
- concerted cooperation of employees from financial and accounting areas, planning and evaluation;
- use and impact of monitoring results and changes in the conduct of the organization;
- change of rights, obligations and employee incentives for consistent and balanced approach to their duties and encourage or improvement of initiatives;
- strict control of inputs and outputs (assets and liabilities) of the authority;
- identify the source of information, databases, standards of good practice, review of past and present results in order to establish differences and future strategies;
- means of learning and compliance for the staff on the aims and objectives of the entity;
- a systematic process of review of the fundamentals or of the reference frame used for each level indicator or assessment tool.

Also, the recommendations of audit in the reporting of analysis indicators are the following:

- formulate basic explanations about how all indicators, the work methods and data are obtained and administered;
- establishing responsibilities to comply with work procedures, standards and verifying the integrity and accuracy of information;
- development of tracking, analyzing, evaluating and risks management;
- periodic review and updating of the cyclical risk management procedures in order to ensure validity and compliance of their role;
- evaluating the totality of methods, processes and data to ensure the existence of uniformity / alignment between the information reported, inside and outside the institution;
- analyzing the examination, administration and coordination of information flows;
- ensuring that mechanisms of review, control, administration, resource allocation and management are adequate, compared to the general rules and to the situation / condition of other entities;
- determining the prevalence / priority of global, national indicators, or of those of an institution;
- where there are no reports, for example, as a consequence of the small size of business structure, there will be needed the tracking on-site of either individual processes or operations.

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And last but not least, the audit recommendations as far as reported quality data are concerned:

- information should be: clear, valid, appropriate, accurate, consistent and timely;
- examination of the general framework used for: access, collection, administration, recording, processing and disclosure of data held;
- tracking of integrated databases, of methods and processes to improve efficiency and reduce risks of errors or inconsistencies in operations;
- development of applications for technology of information in order to obtain higher quality data;
- review in order to obtain assurance that structures, systems and processes are the most reliable and effective in achieving the proposed targets;
- reviewing of the quality and usefulness of reports based on general standards in the field;
- checking of whether the reporting of the failures and not complying with objectives are explained / justified;
- use assessment results in annual reports to complete and improve explanations concerning achievements and changes of strategies and of the activities of the entity;
- evaluating the comparisons made in order to ensure that they functionally correspond in order to allow users to assess the significance of results;
- comparison with similar areas of operations of other organizations recognized as the highest reporting standards achieved and maintained;
- development of obtaining responses, reverse reactions, feedback from users, all these leading to improve of the proposals concerning users' suggestions, complaints and criticisms;
- providing advice on editing and presentation;
- use the annual report of activity as a positive management tool for improving public image and revealing the entity's performance;
- use of reference points or benchmarks in the presentation of reports to help readers understand the context and the significance of the results;
- explaining the meaning and differences between the initial planning, possibly adjusted, or reassessed and actual results, in order that the users are sure that they understand the stages of reporting and correctly interpret the consequences occurring;
- argumentation, documentation and justification of the key-points source and rationale analysis;
- profile tracking information, from other authorities, networks, professional bodies and associations;
- establish a review process for obtaining assurances that the reference points remain relevant, appropriate, consistent and unchanging;
- maintaining in time the consistency of methodologies and sources of useful data, and in case of changes, evaluating and comparing the consequences which have occurred;



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- monitoring the consistency of information and any other changes, explaining the implications arising for the interpretation of results and trends;
- quality review, information relevance and performance review;
- assessment of what can be learned from the experience / work of other institutions;
- use of techniques such as: strategic planning, timely intervention and added value analysis, which can be used to highlight the critical priority areas in need of assessment and reporting;
- reviewing and monitoring of the evaluation results compliance;
- development of evaluations by focusing on bringing added value to the organization through its production of goods and services;
- regular review of strategies for obtaining assurances that the priorities, components and their manner of implementation remain appropriate in time;
- use of checklists and cross-checks to ensuring that all appropriate and ordered measures were taken;
- examining the use of evaluation results to ensure that recommendations are implemented.

Thus, through its' activity of tracking reports carried out by the structures of public institutions, public internal audit is required to verify and improve their activities, by helping the management through: monitoring the effectiveness of complying with the set objectives, making economy in the use of resources, improving the activity procedures and the operation of systems, legislative compliance, reporting the entity's activities and, last but not least, a fair presentation of the raised issues, of the conclusions and proposals formulated for improvement.

From experience, we can say that there are still significant reserves to improve, modify, update, in other words to change the current system of internal audit, both in terms of efficacy and efficiency.

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