

The Impact of the Internal Public Audit in Local Public Administration – the Evaluation of the Decision-Making System

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Abstract: In order to strengthen the internal control system, to pursue the efficient spending of public funds and to improve the activities of the public entity, we consider that the purpose of exercising the internal audit must guarantee the fulfillment of the established objectives. The approach, however, differs depending on the organizational culture, the functions of the organization and the functions of management. Based on these realities, the internal audit will evaluate and express the opinion on: the efficiency of actions and decisions taken by the entity's management regarding compliance with regularity, risk management, organization of internal control systems, ensuring transparency of activities and decisions taken, and how to achieving the set objectives in an efficient and effective manner.

Keywords: internal audit; internal audit function; risk; management

JEL Classification: M42

1. Introduction

The motivation for this topic consists in the contributions of the internal audit regarding the identification and resolution of specific, complex activities that public entities face in managing the risks associated with the decision-making system.

The internal audit activity is organized and carried out at the level of local public entities on all activities carried out by carrying out assurance missions and advisory missions, in order to eliminate errors and prevent or limit fraud.

In order to strengthen the internal control system, to pursue the efficient expenditure of public funds and to improve the activities of the public entity, we consider that the purpose of exercising the internal audit must guarantee the fulfillment of the established objectives. The approach, however, differs depending on the organizational culture, the functions of the organization and the functions of

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management.

Based on these realities, the internal audit will evaluate and formulate an opinion on:

- the efficiency of the actions and decisions taken by the management of the entity regarding the observance of the regularity, respectively of the regulatory and procedural framework;
- risk management and maintaining them at the accepted levels;
- organization of internal control systems;
- ensuring the transparency of the activities carried out and the decisions taken;
- achieving the objectives set in an efficient and effective manner.

In addition to its contribution to improving risk management and increasing the performance of the entity's activities mentioned in the previous chapter, the internal auditor examines and evaluates the effectiveness of the entity's internal control system, its adequacy to the needs of the institution and the quality of tasks performed by existing staff (*Macarie, 2008*).

2. Literature Review

In elaborating this study, I took into account the theoretical and practical research of some specialists who expressed their opinion on the concept of internal audit, organization and operation of internal audit such as: Mitea A., Suditu Șt., Băncuță A., Tănase D., (2005) "*Auditul public intern de la funcția de control la funcția de consiliere în cadrul asistenței managerial*", Macarie C.F. (2008) "*Auditul public intern – suport în procesul decizional*", Munteanu V., Zuca M., Zuca St. ,(2010), "*Auditul intern la întreprinderi instituții publice*", Vasile E., Croitoru I., (2011) "*Controlul intern – responsabilitate a managementului*",

This theme is supported by my own activity as an internal auditor for over 17 years.

3. Research Methodology

In the elaboration of this research we started from theory, applying a deductive type research, in order to reach individual conclusions regarding the improvement of the internal audit, but also an inductive type research, starting from particular judgments

to the formulation of general conclusions, by verifying the transposition. In practice of the information obtained.

In order to achieve the objectives proposed in this scientific approach, the methodology used was based on:

- theoretical research, inspired by the following sources: international internal audit standards, specialized books, studies and articles published in renowned journals recognized nationally and internationally;
- empirical research, by applying research methods to verify the research hypotheses and establish their own general conclusions.

The conclusions of the theoretical and empirical research that contributed to the argumentation of the improvement of the internal audit and the increase of its efficiency at the level of the entities.

4. The Role of Internal Audit in the Decision-Making Process at the Level of Local Public Entities

The scope of the internal public audit includes all the activities carried out within the public entity, as presented in the following figure.

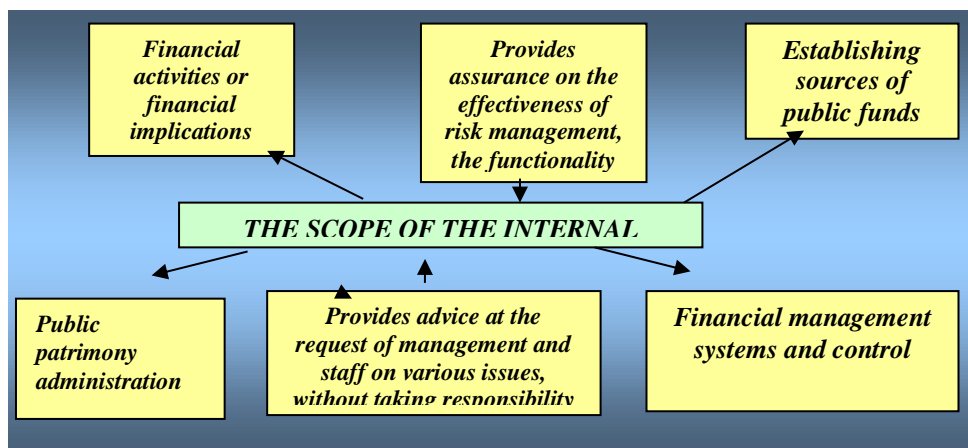


Figure 4.1. Scope of Action of the Internal Public Audit

Source: Own Projection

In addition to its contribution to improving risk management and increasing the performance of the entity's activities mentioned in the previous chapter, the internal auditor examines and evaluates the effectiveness of the entity's internal control

system, its adequacy to the needs of the institution and the quality of tasks performed by existing staff. (Macarie, 2008).

In order to achieve these objectives, the public internal audit exercises the following functions established by the Directive on internal audit responsibilities, issued by the Institute of Internal Auditors, IIA (<http://www.theiaa.org>):

- verifying the reliability and integrity of the financial and operational information carried out within the entity and of the means used to identify, quantify, classify and report this information;
- checking the systems implemented in the institution to ensure that policies, rules and procedures, legal and contractual provisions that could have a significant impact on the achievement of objectives, are observed and applied exactly;
- verification of the measures and means of protection of the assets as well as their existence, if this is required;
- evaluating the economy and efficiency of resource use;
- verifying the concordance between the results obtained following the performance of the operations or programs with the goals set by the entity as well as whether the approved plans for carrying out the respective operations and programs have been observed.

In the exercise of these functions it is necessary to know in detail the specifics of the entity by the team of internal auditors because for the collection, interpretation of audit evidence and drawing conclusions, auditors must use corresponding to the activities of the entity. Also, the internal auditors must have direct independence of action and expression of opinions, meaning that the internal audit department will be directly subordinated to the management. The manager will determine the areas of audit based on managerial decisions and specific reporting needs.

5. Evaluating the Decision-Making System

The area of applicability of an audit mission is still a major concern of the auditor today, its establishment must be done taking into account the laws and legal regulations in force.

Although the internal auditors issue an assurance that the entity's objectives will be met, they are no guarantors that provide absolute assurance that the existing

accounting information financial statements are correct. However, they assume an important responsibility to inform users that the financial statements are credible or not.

If the auditors conclude that the financial statements are not accurate or are unable to draw appropriate conclusions, then they are fully responsible for not presenting this situation to the interested parties, through the audit mission report.

The internal audit function is especially useful for the management of the entity, offering it assistance and advice for decision making, based on the experience and knowledge gained during the verifications and evaluation of the activities subject to audit. At the same time, through the opinions, conclusions and recommendations given to the management, the internal audit contributes to the adoption and improvement of their decisions. I also believe that better communication between management and internal audit can lead to an increase in the efficiency of the decisions taken.

It is unanimously recognized that the introduction of internal public audit is a decisive step in the evolution of organizations, an important step in the introduction and development of efficient management in public institutions, regardless of their object of activity. (*Mitea, Suditu, Băncuță & Tănase, 2005*).

The contribution of the audit consists in offering the entity's manager an objective and complete opinion regarding: the level of performance reached, the risks that threaten the achievement of the objectives, and the way of using the entity's resources. For the auditors' opinion to be objective, they must be independent in action and expression, have autonomy that allows them to design hypotheses and make recommendations. By highlighting the risks that threaten the achievement of the entity's objectives, the internal audit contributes to the development of a modern, predictive and well-founded management.

The public internal audit should not be confused with the internal control function of the structure of which it is part, it is not a more "sophisticated" form of strengthening control as it is often misunderstood, but it is a managerial advisory function.

The concept of audit-advice should be used as often as possible to eliminate confusion with the notion of audit-control, even if the two notions are not incompatible. The audit, by examining the efficiency and effectiveness of the entity's actions, adds value to the control and a rigorous control facilitates the

auditor's work. This addition of the value brought by the internal audit can be seen from two directions that explain and justify the foreseeable evolution:

- **the first direction** is the one given by the increase in complexity of the management of the entities that forces their managers to appeal to the internal auditor the more difficult or novel situations in order to integrate them in the entity. In this situation, the internal auditor is only a consultant of the manager who assumes the established solutions;

- **the second direction** refers to the advisory role that develops together with the pedagogical role of the internal audit, role given by its contribution to the training of specialists within the entity and by the participation in the implementation of the internal control.

Therefore, the internal audit, through the help given to the leaders of the organizations regarding the administration of the activities, represents also a function of assistance. The manager of the entity is assisted by the internal audit to solve the problems related to the adopted decisions, in order to obtain a better control over them.

The internal auditor is increasingly adopting the profile of a counselor, of a consultant we can call spontaneously, of a specialist. (*Mitea, Suditu, Băncuță & Tănase, 2005*).

In other words, the internal auditor is not forced to give a result, he advises, assists, recommends but does not decide. Through his actions, based on reference norms that give him authority, the internal auditor helps to improve control, to improve performance and implicitly to achieve the objectives of the entity.

The internal audit advisory function is also recognized internationally through the adoption of the Professional Rules of Internal Audit in which numerous references are made to the advisory missions undertaken by internal auditors. The counseling activity is organized and carried out as follows:

- **formalized advisory missions** that are the subject of a separate section of the annual internal audit plan, have a formalized character and are carried out through systematic and methodical approaches

- **informal advisory missions** are carried out by participating in various standing committees, or on fixed-term projects, in one-off meetings or current exchanges of information to be carried out according to their specific procedures;

• ***counseling missions for exceptional situations*** take place by participating in teams specially set up to resume the activity imposed by force majeure or certain exceptional events to be carried out according to their specific procedures.

Concluding, in the decision-making processes that take place in public entities, managers substantiate their decisions, based on the information they have and after consulting with internal and external specialists who have a good command of the field of activity specific to the entity. Their specialists should include internal auditors who have in-depth knowledge of all activities within the entity, as by the nature of their function, using specific techniques and methods, they examine and evaluate both the adequacy and effectiveness of the internal control system. and the quality of the activities carried out in the entity, thus enriching their knowledge and experience in the field.

At the same time, auditors assess the degree of risk that may affect the achievement of objectives if certain decisions are made and determine the level of risk that the entity is prepared to accept. (*Macarie, 2008*)

Unfortunately, managers of public entities view audit more as a form of control and less as a counseling function or as a valuable resource for achieving managerial performance. There is still, in many public entities and especially at the level of local public institutions, an inertia in ensuring and functioning the internal audit as a result of perpetuating the confusion between control and internal audit but also the erroneous perception of management about the purpose of audit missions.

But until the managers of the entities are aware of the contribution that internal audit can have in strengthening the decision-making system and managerial control, as well as in increasing managerial performance and quality of public services, public internal audit will not be able to play its role. of specialist, of advisor to whom he tends.

Following the analysis of the importance of financial-accounting management in terms of exercising its functions, respectively: forecasting function, organizing function, coordination function, training and control-evaluation function we can appreciate that it constantly guides the entity in order to achieve superior performance by anticipating the ways of carrying out the economic processes in the unit, based on the obtained results and the accumulated experiences.

Each of the five functions of the financial-accounting management contributes to the improvement of the performance of the financial-accounting activity of the entity and practically an added value of the management action of this activity. At the
260

substantiation of the decisions, the managers of the entities are based both on their own experience, knowledge and information in the field as well as on the consultations with the specialists within the institution, sometimes resorting to consultants from the external environment. In the decision-making processes that take place in public entities, managers base their decisions, based on the information they have and after consulting with internal and external specialists who have a good command of the field of activity specific to the entity.

In my opinion, based on the internal audit, I analyze the general model of a decision problem in conditions of uncertainty and risk, in which the risk is of a financial nature.

The decision model in financial risk conditions has the following six components:

- identification of objectives;
- determining the possible actions;
- identification of nature states;
- establishing possible results;
- measuring the value of risk;
- choosing the optimal action.

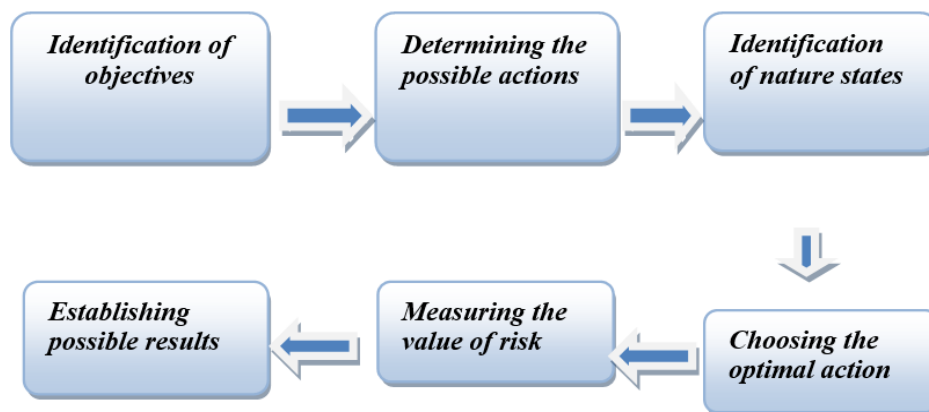


Figure 5.1. The General Scheme of a Financial Decision Problem

Source: Own Projection

Identifying the objectives: an objective (target) that the decision maker hopes to achieve, by maximizing the profit or the current value of the cash flow. The calculation of the objective means, in some situations, the determination of an objective function, which will be used to evaluate the possible actions and as a basis the choice of a better alternative.

Determining possible actions: searching for possible alternative actions to achieve the goal.

Identifying the states of nature: the problems identified by the financial decisions are defined in situations of uncertainty, being necessary to take into account all the uncontrollable factors that cannot be kept under control by the decision maker and that could appear for each possible action identified.

Establishing possible results: the different possible combinations between the actions and the states of nature, result in a set of possible results. The results are conditioned by certain actions and a certain state of nature.

Measuring the value of risk: it is a measure of loss (or utility) for each possible outcome, depending on the decision maker's goals. The loss in financial decision models is monetary in nature.

Choosing the optimal action: it is an action of reaching the decision-maker's objective, in conditions of minimal loss.

6. Conclusions

The internal auditor will be able to exercise the role of specialist and advisor to which he tends only when the managers of the entities will be aware of the contribution that the internal audit can have in strengthening the decision-making and managerial control system, and in increasing managerial performance and quality of public services.

Compared to the presented ones, it results that the internal audit represents a necessary tool for the management, which through the methods and techniques it uses can identify the situations in which the information is distorted and thus can contribute to the increase of their credibility and quality.

The need for internal audit also results from the fact that the management of public entities, which is responsible for protecting public funds and assets, wants a correct, efficient and effective use of public funds and preserving the integrity of assets.

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