International Conference « Global interferences of knowledge society »,
November 16-17th, 2018, Targoviste, Romania

Global Interferences of Knowledge Society

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<https://doi.org/10.18662/lumproc.126>

How to cite: Plesa, I.T., & Stegaroiu, I. (2019). A Modern Approach of the Supreme Audit Institutions: Guidance and Prevention in Public Sector. In M. Negreponti Delivanis (ed.), *International Conference «Global interferences of knowledge society», November 16-17th, 2018, Targoviste, Romania* (pp. 80-90). Iasi, Romania: LUMEN Proceedings. <https://doi.org/10.18662/lumproc.126>

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A Modern Approach of the Supreme Audit Institutions: Guidance and Prevention in Public Sector

Iliodor Tiberiu PLESA^{1*}, Ion STEGAROIU²

Abstract

In a constantly evolving society, a modern approach of the supreme audit institutions (SAIs) has intervened as a response to changes in the environment in which they operate. Thus, in addition to the control/audit function, some of the supreme audit institutions introduced a new concept in their work, namely guidance and prevention function.

This new function allows the supreme institutions to contribute more to the strengthening of the financial discipline in the public sector and reducing cases of irregularities in the use of public funds and state resources.

This article aims to analyze the compatibility of the guidance and prevention function with the independence aspects that are absolutely necessary for the proper functioning of a supreme audit institution, as required by the international auditing standards of INTOSAI for the public sector.

Also, there are presented some methods used by several supreme audit institutions to provide guidance to audited entities, as well as the proposals for amending the Law no. 94/1992 regarding the organizing and functioning of the Court of Accounts of Romania regarding the aspects of guidance and prevention.

Keywords: *supreme audit institution; Romanian Court of Accounts; independence; guidance; prevention; audit.*

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<https://doi.org/10.18662/lumproc.126>

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Selection and peer-review under responsibility of the Organizing Committee of the conference

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1. Introduction

A modern and effective approach of a supreme audit institution (SAI) is not limited to the audit itself. The experience gained in carrying out their specific activities has shown that it is not sufficient for the supreme audit institution to issue recommendations for the elimination of identified deficiencies in the activity of the audited entities.

There is a number of solutions that a supreme audit institution has at its disposal in terms of the possibility of deepening their audit activity in order to make the activity of the audited entity more efficient. Besides the performance audit, considered a highly effective tool, a number of SAIs introduced the concept „advisory", "guidance", for the purpose of doing prevention.

Those supreme audit institutions that introduced the concept of "*advisory*"/"*guidance*" in their specific activity considered that this type of approach could have incalculable benefits in terms of the efficiency of public resource management, and this would considerably reduce the number of deviations from legality identified in the activity of audited entities.

2. Theoretical Background

A number of SAIs members of INTOSAI (International Organization of the Supreme Audit Institutions) have introduced in their specific work the concept of "advisory"/"guidance." Taking this into account, the INTOSAI General Secretariat has been organized along with U.N. the 22nd Symposium United Nations-INTOSAI in 2013. At this Symposium brought their contributions 150 participants from 68 Supreme Audit Institutions members of INTOSAI [1].

The main purpose of this Symposium was to share experiences on guidance/advisory activities conducted by participating SAIs, in order to identify good practices and new ways to value this type of activity, which proves the INTOSAI community's concern about this issue.

One of the central idea of this Symposium was that is not sufficient for a supreme audit institution to audit the facts that occurred, because this leads to the idea that those institutions may not be perceived as "an effective control element"[1].

This new feature for the supreme audit institutions may have a lot of returns for the state budgets and economy. This means that the supreme audit institution may develop their audit work in the way that all their potential to be used in striving to have a better public governance, by introducing the advisory approach in their work.

The advisory approach means that the supreme audit institutions may make proposals and offer potential solution for more economic and efficient public governance through their audits. These proposals and solutions may be integrated in the process of the government reform. By this, the supreme audit institutions have their own advantages in front of the citizens: a greater visibility of the value and benefits of SAIs and how they can make some differences in their citizens' lives.

One of the final conclusions of this Symposium was that the supreme audit institutions "could play a decisive role in the development of good governance, promoting an efficient, effective and accountable institutional setup and processes". [1]

However, by this new feature, the supreme audit institutions may be perceived as true partners for the public governance of the countries that they operate on and also make some differences in their citizens' lives.

While advisory/guidance represents an increasingly common activity in supreme audit institutions in various forms, there are voices that contradict the opportunity of this type of activity, arguing that this could affect the independence of SAIs with respect to entities audited.

3. Argument of the paper

This paper aims to highlight the positive impact of SAI's advisory/guidance activities on the use of public resources and also on the public sector entities' performance.

4. Arguments to support the thesis

As previously mentioned, there is a concern of the supreme audit institutions at international level about the efficiency, economy and effectiveness of the public resources used by public sector entities. In addition to the specific external audit work, the supreme audit institutions have understood that they need to take a step forward in introducing a new concept of advisory/guidance activities.

This new type of activity has many benefits and opportunities for the audited entities, as well as for supreme audit institutions and interested parties (Parliament, Government, citizens, etc.).

Among the opportunities that arise for the SAIs, in the view of implementing the recommendations that are issued and by consolidation with the advisory/guidance function, we can mention the increased efficiency, a more efficient use of taxpayers' money, an increased economy, efficiency and effectiveness in terms of government operations and a greater

visibility of the value and benefits of supreme audit institutions for the society.

5. Arguments to argue the thesis

This advisory/guidance function should be done in such a way that the independence of the supreme audit institution would not be impaired.

Of course, the views on this advisory/guidance function are not shared at INTOSAI level unanimously and this because of the interpretation given to INTOSAI's international audit standards (commonly called "ISSAI").

Thus, according to Principle 3 of the ISSAI 10 "Mexico Declaration on SAI Independence":

"SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit.

SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so they remain objective and appear objective."

Also, in accordance with Principle 3 of ISSAI 11 "INTOSAI Guidelines and Good Practices Related to SAI Independence":

"A sufficiently broad mandate and full discretion, in the discharge of SAI functions.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit.

SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so that they remain objective and appear objective." [2]

These provisions of the aforementioned International Auditing Standards are implemented by the supreme audit institutions of INTOSAI, an organization that has taken the necessary steps to ensure that the supreme audit institutions avoid repeating scandals such as those in the United States of America in connection with the multinational audit company "Arthur Andersen LLP", which provided financial and fiscal advice and also carried out the financial audit to its clients. Due to the inability of Andersen to implement appropriate standards of ethical conduct among its employees, on the one hand, financial advisory services have led to an unwarranted increase in Enron's financial result and a corresponding increase in payroll and employee benefits from the management of this company and, on the other hand, the issuance of audit opinions that did not reflect the reality. Thus, Andersen's employees who conducted the financial audit at Enron's multinational company have hidden the errors made by the company, following the financial advice received from the same advisor. The consequence of this approach was the bankruptcy of the multinational

company Enron, which had huge debts not reported in the financial statements, the misleading their shareholders and the disappearance of the multinational financial audit market of the Andersen consulting firm.

At the INTOSAI Congresses organized in recent years, a great emphasis was placed upon the SAIs' compliance regarding the principles and the need to implement an appropriate code of ethics. Thus, at the 2012 INTOSAI Congress held in Beijing, in Beijing Declaration Chapter II was stressed the importance of the supreme audit institutions' independence against the audited entities and the protection of these institutions against external influences [3].

Also, the United Nations issued the Resolution A/69/228 "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions" [4], according to which:

"1. Recognizes that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence; (...)

4. Also takes note with appreciation of the Lima Declaration of Guidelines on Auditing Precepts of 1977¹⁴ and the Mexico Declaration on Supreme Audit Institutions Independence of 2007,¹⁵ and encourages Member States to apply, in a manner consistent with their national institutional structures, the principles set out in those Declarations (...)"

In addition to these provisions, at the 22nd UN-INTOSAI Symposium in 2013 was underlined that, although the advisory/guidance function provided by some of the supreme audit institutions brings a number of benefits not only to the supreme audit institutions and the audited entities but also for the society as a whole, there was a unanimous consensus that this advisory/guidance function must comply with a number of conditions in order to preserve the independence of the supreme audit institutions.

Thus, in order to ensure the independence and credibility, it is essential that the supreme audit institutions do not interfere with the current activity of audited entities. A clear separation of responsibilities between administration and control is necessary.

Another risk that comes with the audit/advisory/guidance activity is that some of the recommendations of the Supreme Audit Institution are being criticized by a political group and being commended by another. To avoid these issues, it is imperative that a supreme audit institution always ensures that each decision, starting from selecting audit topics for specific recommendations, is pure, fact-based and open to scrutiny at each stage.

5.1. Some SAIs' experience in terms of advisory/guidance function

Regarding the advisory/guidance function, we need to specify that there is no unitary approach at the level of the supreme audit institutions. Each supreme audit institution has applied this type of approach according to its organizational and operational framework and depending on the specifics and particularities of each country.

Thus, Austria's Supreme Audit Institution (SAI Austria) performs its advisory tasks by publishing general recommendations and position papers on topical issues in the field of public audit. Also, SAI Austria issued positions on administrative reform, based on the conclusions of its audits: "Positions of the ACA on Administrative Reform" (2012). [5]

Another supreme audit institution with experience in advisory/guidance is the German Federal Court of Audit (SAI Germany). SAI Germany makes recommendations based on the experience learned from previous audits and assures advice to the auditees. The advisory/guidance activities of the German Federal Court of Audit have continually grown, thus creating important recommendations for improving quality, establishing a potential for saving or increasing revenue. At the same time, SAI Germany reports the findings of the audit that it carries out in some documents called management letters, which are sent to the auditees in order to make the relevant comments. Germany's Supreme Audit Institution does not only advise the government (executive) or the legislature by comprising the audits recommendations favorable to improvement in letters addressed to the management, but this is done also by adding verbal comments or written, on some profundities such as projects that are considered of major importance in the field of public procurement or during the budget execution annually.

Also, the programs, especially large-scale ones, include a multitude of individual decisions, each of which can be considered separately. This approach allows SAI Germany to detect and address deficiencies at an early stage. [6]

The Hungarian Court of Audit approached the advisory/guidance activity by organizing seminars to disseminate good practices on: the effectiveness of internal controls, budget execution and financial statements, transparency and integrity in public sector, etc. It also made up and submitted checklists for public institutions through which they can self-assess the budgetary execution and the financial statements preparation for every year [7].

5.2. Legislative proposal to amend the Law no. 94/1992 regarding the organizing and functioning of the Court of Accounts of Romania regarding the aspects of advisory and prevention

During its existence, the Romanian Court of Accounts has constantly tried to adapt to the new trends that have developed at the international level, in order to make its activity more efficient. However, at this time, the institution has not yet among its attributions the advisory/guidance activity.

In 2017 a legislative proposal was initiated to amend the Law no. 94/1992 on the organizing and functioning of the Court of Accounts of Romania, in which a series of provisions regarding the advisory/ prevention aspects were introduced. The reason for initiating this legislative proposal was based on the principle that it is more effective and cheaper to prevent than to correct.

In this regard, the legislative proposal provides the following aspect:

"Without prejudice to its independence, the Court of Accounts contributes to the awareness of the need for transparency and accountability in the sound management of public sector funds and patrimony management, including through the following activities:

a) is participating in the improvement of public sector reforms and the regulatory and procedural framework of public sector entities, with which it collaborates;

b) is collaborating with national and international institutions in order to solve problems related to auditing, accounting and public sector accountability;

c) is contributing to the improvement of the professional competencies of the staff within public entities, by organizing seminars;

d) is analyzing the developments in the audited domains mentioned in the present law in order to assess in due time the related risks as well as the major problems affecting the society, which they have identified or were communicated to it by the citizens;

e) is developing its own strategies based on identified risks and implement them, including by putting in place mechanisms for guidance of public entities, in order to use public funds correctly. The guidance is done by organizing conferences and seminars and by publishing, including on its website, good practice guidelines elaborated by field of activity, self-assessment lists for public entities, general recommendations, unitary solutions and practices ;

f) is considering the identified risks and major issues affecting the society in the process of elaboration and execution of its activity program. "[8]

At the same time, the legislative initiative mentions that, in many cases, the reported irregularities are not based on the intention of defrauding public funds and resources, but are rather due to the ambiguity and complexity of the legislation governing the areas under the control of the Court of Accounts. These ambiguities cause confusion among employees in

the public administration who must apply the law in managing funds and public resources.

The legislative proposal also highlights the benefits of these amendments to the Law on organizing and functioning of the Court of Accounts of Romania, by introducing advisory/guidance activities between the Court of Accounts' tasks.

6. Dismantling the arguments against

Taking into account the developments in society, there is a need for a more active involvement of the supreme audit institutions in the advisory/guidance area, in addition to the other audit work they carry out.

A deeper engagement from supreme audit institutions has a very high benefits, both at the level of audited entities and at the level of society, as a whole.

In order that these advisory/guidance activities have a positive impact, a mandatory condition is the compliance with the principles of the ISSAI 10 "Mexico Declaration on SAI Independence".

Section 2 of the ISSAI 1- The Lima Declaration defines the term of "pre-audit", which may be performed by the supreme audit institution or other audit institution. This type of audit is presented in ISSAI 1 as having the main advantage of preventing damage before it occurs. However, the ISSAI 1 provides that this type of audit remains at the discretion of the supreme audit institution, depending on the circumstances and specificities of each country [9].

On the other hand, the ISSAI 12 standard mentions that the SAIs should act in such a way as to make a difference in their citizens' lives. In order to achieve this, the SAIs must ensure that:

- is strengthening the auditees accountability, transparency and integrity
- is arguing the relevancy of its work on a continuous basis to the stakeholders
- must be exemplary organizations, that lead by their own pattern.

ISSAI 12 standard (principle 5) specifies that the supreme audit institutions must be responsive to changing environments and emerging risks. In order to achieve this, they need to act in a timely manner, for example by promoting fraud prevention and corruption mechanisms through advisory/guidance activity.

In principle 7 of ISSAI 12 is stated that the supreme audit institutions must be a believable, self-dependent and non-partisan source of perception for asserting benefic changes in the society. Also, as active

partners in the external public audit profession at national and international level, the supreme audit institutions should utilize their own learning and prospects for the support of the reforms in public sector [10].

Although some supreme audit institutions have not adopted this new type of advisory/guidance activity by invoking the principles of the ISSAI 10 Mexico Declaration on SAI Independence, this new approach has substantial benefits not only for entities audited, but for the entire public sector. It is demonstrated that there is a possibility that a supreme audit institution can carry out advisory/guidance activities without affecting its independence, as we have previously shown in the case of the Austrian Court of Auditors, the German Federal Court of Audit and the Hungarian Court of Audit, these being just a few examples of supreme audit institutions that, in addition to their basic audit function, also have the advisory/guidance function.

7. Conclusions

The advisory/guidance activity carried out by some supreme audit institutions is primarily based on the concept of prevention. Taking into account the rapid changes that can take place in society and which in some cases can turn into emerging risks, the supreme audit institutions need to be able to manage these risks, and they can best do it through prevention, adding value in this way.

At the same time, by performing advisory/prevention activities, the supreme audit institutions increase the effectiveness of their audits, contribute to a better visibility of the value and benefits that they bring to the society, promotes economic and social development by contributing in this way to achieve the objectives set out in Agenda 2030 for Sustainable Development.

Also, the advisory/guidance work carried out by the supreme audit institutions should be carried out in such a way that the independence and credibility of these institutions would not be affected. One of the most commonly used forms of advisory/guidance activity is based on audit reports prepared and published to avoid the risk of perceiving political interference in the work of these supreme audit institutions. Achieving thematic publications for a target group based on the elements found in the audit reports and the dissemination of such publications in the public debates conducted by the supreme audit institutions would effectively contribute to the elimination of some deficiencies in the activity of the targeted audience.

At the same time, the supreme audit institutions need to be able to make clear, practical recommendations that add value, for increasing the public sector's economy, efficiency and effectiveness, thus enabling the advisory/guidance function to become visible and effective in the work which they carry out.

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