

Public Sector Internal Audit, a Tool for Assessing the Achievement of the Development Objectives by the Public Authorities

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Abstract: *This scientific research study is an attempt to answer the question "Is the public sector internal audit a management tool for assessing the regional and local sustainable development programs and projects?" in a constructive approach, that could bring value to both the economic theory, and the economic and social practice. The starting point of the study was the public sector internal audit's work that was undertaken within the ministry that manages the public funding for sustainable development. The analysis of the public sector internal audit typology, that was carried out in the 2016-2021 period, outlined the structure of the dysfunctions that were found about the checked auditing objectives, which belong to the accounting information system. The outcomes of the research undertaken about this issue led to relevant conclusions regarding the validation or invalidation of the research hypothesis.*

Keywords: *public sector internal audit; public funds; accounting information system; sustainable development.*

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1. Introduction

The starting point of the study was the public sector internal audit's work that was undertaken within the ministry that manages the public funding for sustainable development. From its own definition, it appears that the public sector internal audit improves the administration processes and it assesses the way of designing, implementing, developing, and operating the internal management control system of a public entity (Ministry of Finance, 2020a). Consequently, with the public sector internal audit's help, the processes and activities that a public entity carries out are assessed in an objective and independent manner, which adds value. In the definition of the public sector internal audit concept, there is the word governance (Bota-Avram et al., 2017). It is, therefore, necessary to clarify this term, which has been defined as "the set of processes and structures that management implements in order to inform, direct, lead, and monitor the activities of the public entity towards the achievement of its objectives" (Romania Parliament, 2011).

Under these circumstances, public internal auditing is defined in Figure 1 with the following three forms: regularity audit, performance audit, and system audit (Bécour & Bouquin, 2003; Cetina & Ivan, 2021). In the picture below, the three types are conceptually presented, as provided for in the applicable national and international framework:



Figure 1. Public sector internal audit typology

Source: Data processed by the author

The objectives of the public internal audit department of the ministry under review, in accordance with the specific rules for putting in practice the law on public sector internal audit, were defined to ensure: a good management of the public funds and assets, conformity to the regulations, reliability of the information-accounting system, and improvement of the risk, control, governance, and operation effectiveness management (Romania Parliament, 2011).

The types of services that the internal audit department had to provide with at the ministry level were as follows: assurance services (regularity or compliance audit services, performance audit services, and system audit services) and advisory services (Fabre & Bessire, 2006).

2. Problem Statement

Under the legal provisions, the ministry's internal audit department was required to audit, at least once every 3 years, but not limited to them, the following:

- The financial activities or the activities with financial implications that took place since the commitments were made until the funds, including the external funding, were used by the final beneficiaries
- The payments under the budgetary and legal commitments, including from the EU Community funding
- The asset management, as well as the sale, pledge, concession, or lease of assets from the private domain of the ministry under review
- The concession or lease of goods from the public domain of the ministry under review.
- The establishment of the public revenue, i.e. the procedure for authorising and establishing the debt securities and the facilities upon their collection
- The allocation of budgetary appropriations for current and capital expenditures, and for carrying out the other duties of the ministry under review
- The accounting system and its reliability, including the IT systems for managing the public funding, and the activities of the ministry under review
- The decision-making system, and the management and control systems, including the risks related to them (Romanian Government, 2013).

The scientific research study addressed the topic of the public sector internal audit by referring to the types of audits the ministry's specific department carried out during the period under analysis (Gavard-Perret et al., 2008; Radu et al., 2016).

Thus, the analysis of the internal auditing showed that the activity was mainly oriented towards carrying out regularity audit missions, to the detriment of carrying out performance audit and system audit missions (Morariu et al., 2008).

Through this approach, the public funds the ministry managed were checked for compliance with the legality and regularity of the economic and financial operations carried out.

3. Research Question

In order to prove that the research hypothesis "Is the public sector internal audit a management tool for assessing the regional and local sustainable development programs and project ?", an analysis of the public sector internal audit for the 2016-2021 period was undertaken (a case study based on the example of the ministry that is the object of this research study).

Regional and local development is a subject of interest to citizens, entrepreneurs, public and private sector employees, and other stakeholders, because only in this way a 'good quality' life can be provided (Tănase & Petre, 2019; Tăbîrcă et al., 2020).

4. Research Methods

The scientific research methodology makes use of both descriptive research methods and exploratory methods -- namely the deduction method, the rate method (traditional analysis based on rates), the comparison, the evaluation grids, the questionnaires.

The questionnaire method is a scientific research tool that has both a quantitative role, and also a qualitative role, namely that the hypotheses that were formulated will be validated or invalidated, as a result of the applied research (Niculescu, 2003).

Therefore, the result of the scientific approach help improve the audit of the public funding allocated for the regional and local sustainable development, and offers "solutions" thanks to a constructive and positive approach of the economic and social phenomenon under review, as these concepts of epistemological placement can be found in the professional books.

5. Public sector internal audit, a tool for identifying dysfunctions in the public funds' management in the 2016-2021 period

In the context above presented, the regularity audit missions carried out in the 2016-2021 period focused primarily on the financial and accounting activities of the ministry, as well as of its subordinate entities under the ministry's coordination or authority.

Following the analysis of the internal auditing annual reports, a number of issues were emphasized, as they indicated dysfunctions in the

ministry's accounting information system, as well as in the subordinate entities, particularly regarding the consumption of public funding, which was quantified by the public accounting (Radu & Tăbîrcă, 2019).

In the 2016 financial year, the dysfunctions encountered during the internal audit missions were the following:

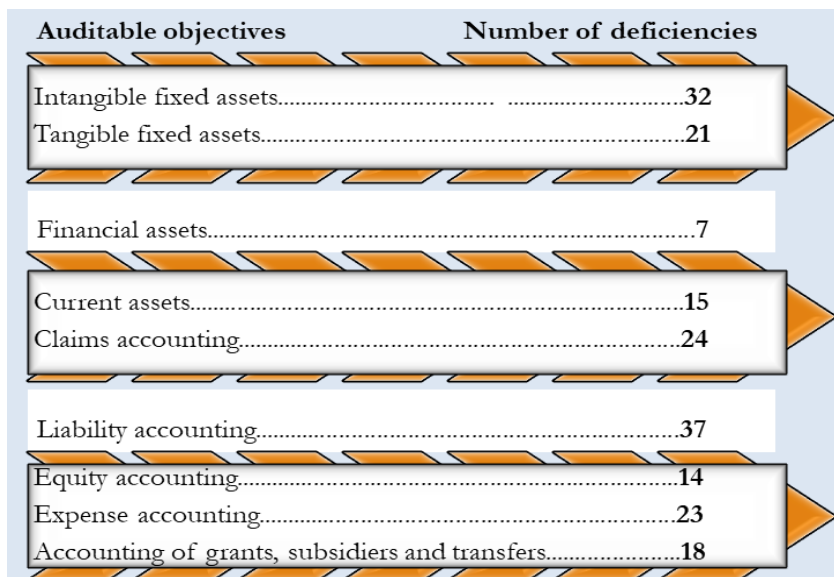


Figure 2. Typology of encountered problems in the 2016 financial year
Source: Data processed by the author

The above-presented data show that, in the 2016 financial year, the internal audit discovered 191 dysfunctions in the economic and financial operations in terms of compliance with legality and regularity (Ministry of Finance, 2016). The share of each sort of problem in the total amount of dysfunctions, in the financial year 2016, is shown in the figure below as follows:

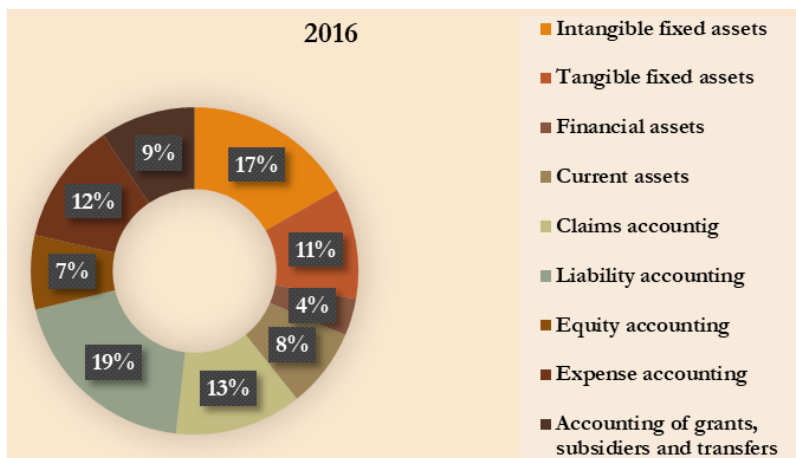


Figure 3. Shares of the issues the internal audit found in the 2016

Source: Data processed by the author

In the 2017 financial year, the dysfunctions encountered during the internal audit missions were the following:

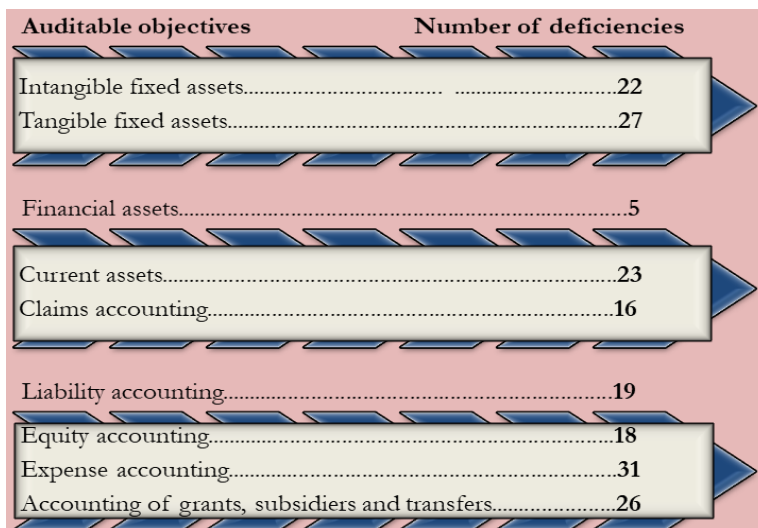


Figure 4. Typology of encountered problems in the 2017 financial year

Source: Data processed by the author

The above-presented data show that, in the 2017 financial year, the internal audit found 187 dysfunctions in the economic and financial

operations, in terms of compliance with legality and regularity (Ministry of Finance, 2017). The share of each sort of problem in the total amount of dysfunctions, in the financial year 2017, is shown in the figure below as follows:

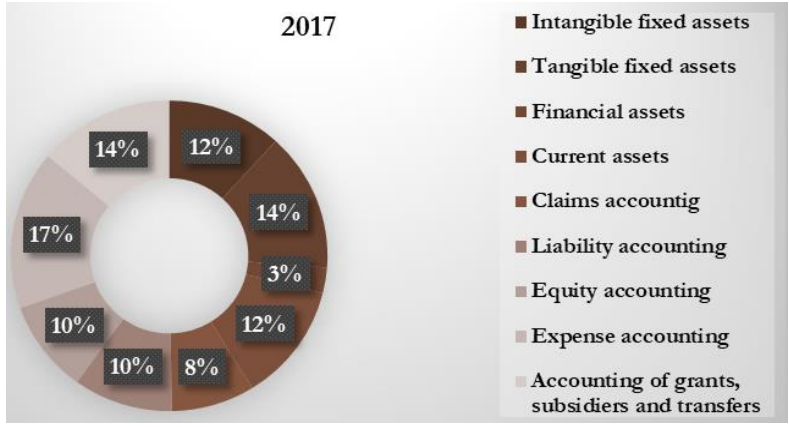


Figure 5. Shares of the issues the internal audit found in 2017

Source: Data processed by the author

In the 2018 financial year, the dysfunctions encountered during the internal audit missions were the following:

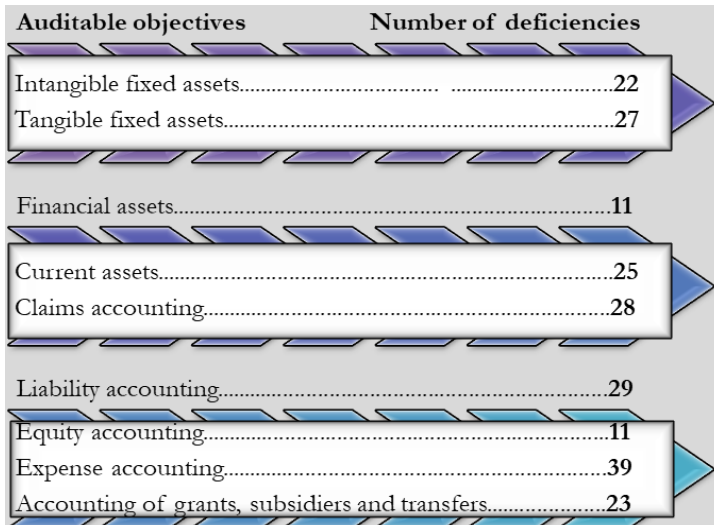


Figure 6. Typology of encountered problems in the 2018 financial year

Source: Data processed by the author

The above-presented data show that, in the 2018 financial year, the internal audit found 215 dysfunctions in the economic and financial

operations, in terms of compliance with legality and regularity (Ministry of Finance, 2018). The share of each sort of problem in the total amount of dysfunctions, in the financial year 2018, is shown in the figure below as follows:

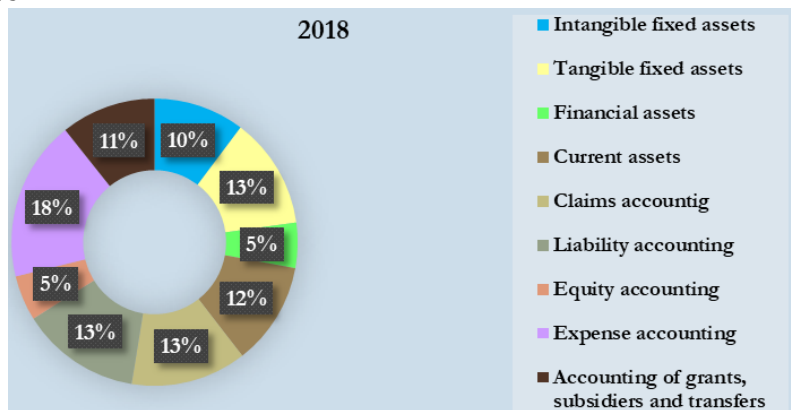


Figure 7. Shares of the issues the internal audit found in 2018

Source: Data processed by the author

In the 2019 financial year, the dysfunctions encountered during the internal audit missions were the following:

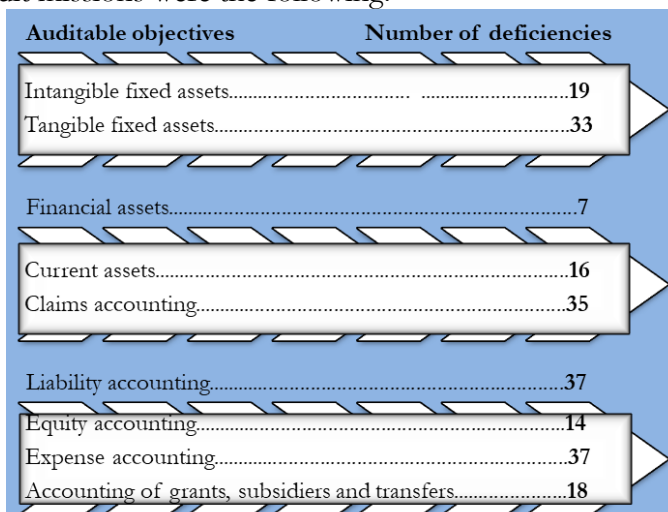


Figure 8. Typology of encountered problems in the 2019 financial year

Source: Data processed by the author

The above-presented data show that, in the 2019 financial year, the internal audit found 216 dysfunctions in the economic and financial operations, in terms of compliance with legality and regularity (Ministry of

Finance, 2019). The share of each sort of problem in the total amount of dysfunctions, in the financial year 2019, is shown in the figure below as follows:

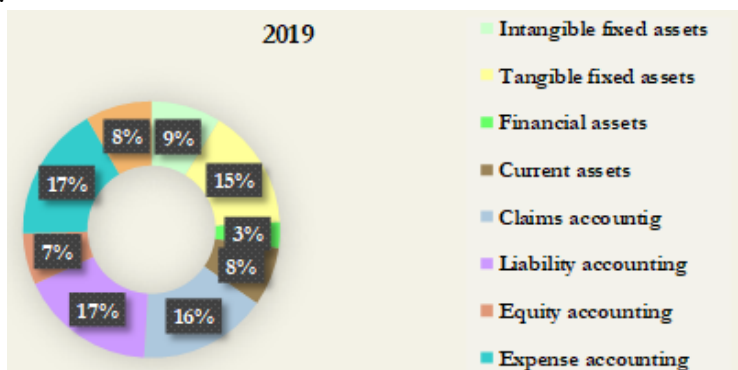


Figure 9. Shares of the issues the internal audit found in 2019

Source: Data processed by the author

In the 2020 financial year, the dysfunctions encountered during the internal audit missions were the following:

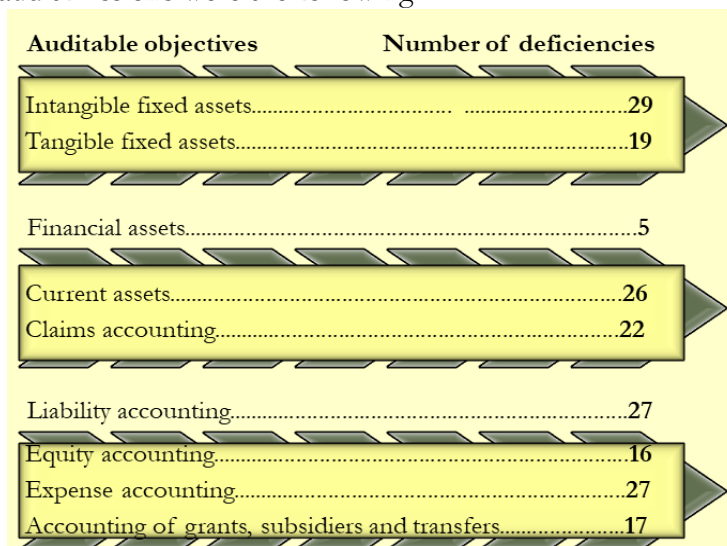


Figure 10. Typology of encountered problems in the 2020 financial year

Source: Data processed by the author

The above-presented data show that, in the 2020 financial year, the internal audit found 188 dysfunctions in the economic and financial operations, in terms of compliance with legality and regularity (Ministry of Finance, 2020b). The share of each sort of problem in the total amount of

dysfunctions, in the financial year 2020, is shown in the figure below as follows:

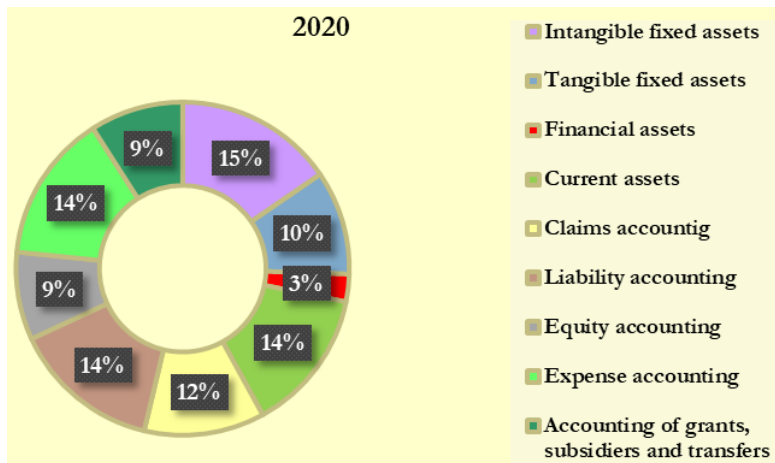


Figure 11. Shares of the issues the internal audit found in 2020
Source: Data processed by the author

In the 2021 financial year, the dysfunctions encountered during the internal audit missions were the following:

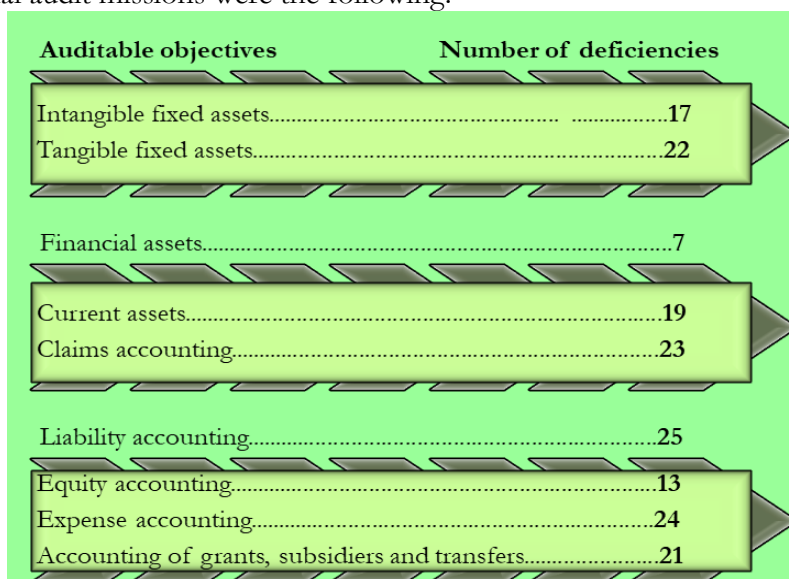


Figure 12. Typology of encountered problems in the 2021 financial year
Source: Data processed by the author

The above-presented data show that, in the 2021 financial year, the internal audit found 171 dysfunctions in the economic and financial

operations, in terms of compliance with legality and regularity (Ministry of Finance, 2021). The share of each sort of problem in the total amount of dysfunctions, in the financial year 2021, is shown in the figure below as follows:

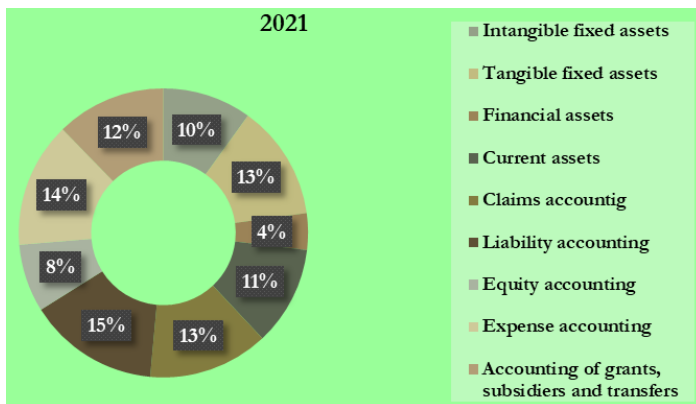


Figure 13. Shares of the issues the internal audit found in 2021
Source: Data processed by the author

In conclusion, the dysfunctions that were found in the ministry under review, in the 2016-2021 period, following the internal public audit missions, and the regularity of auditing on public funds, can be summarized as follows:

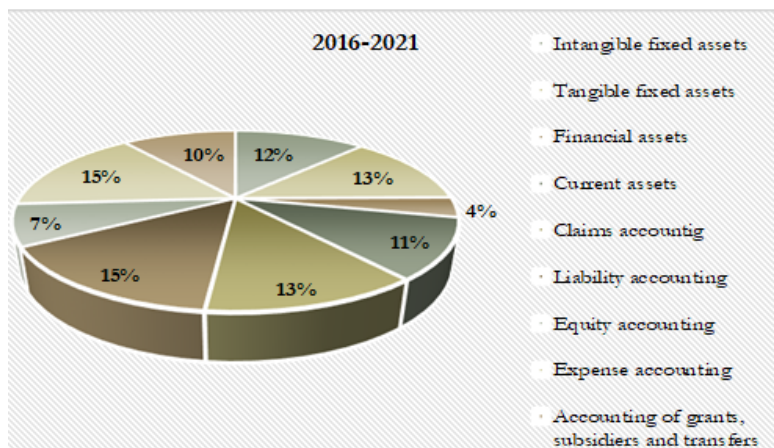


Figure 14. Structure of issues the internal public audit found in the 2016-2021 period
Source: Data processed by the author

The centralized analysis of the above data showed that the dysfunctions that were identified in the asset accounting reached 53% of the total amount.

The issues in relation to debt and capital accounting reached 22% of the total amount, and those relating to expenditures, financing, grants, and transfers only reached 25% of the total.

6. Conclusions

Considering the above-presented issues with regard to the internal audit which was undertaken in the 2016-2021 period at the ministry under review, the conclusion that emerges is that the auditing does not fulfill its purpose of being a tool for assessing the achievement of the ministry's development objectives.

Thus, the approach of the internal audit missions should shift to assessing the activities undertaken by the ministry, under its functions granted by law, and particularly to conducting combined audits, *i.e.* system, and performance audits.

Only with the help of such approaches will internal audit add value to the work of the ministry and contribute to the achievement of the development objectives in the Institutional Strategic Plans.

In this sense, by building a scoreboard on the problems identified by the internal audit, decisions can be taken to improve the information provided with by the current accounting information system.

Only with the help of the Scoreboard, through which the indicators of the development objectives could be monitored, will it be possible to take decisions to improve activities during budget execution so that public funds are allocated, managed and consumed effectively.

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