

## INTERNAL AUDIT - ACTIVE INSTRUMENT IN PERFORMANCE EVALUATION DECISION MAKING SYSTEM

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**Abstract:** *At public entities in Romania, the decision-making system works in all aspects: processes, actions and financial, material and information resources. The implementation of the internal audit allows the management of the public entity to periodically evaluate its general and specific objectives, the associated risks as well as the internal control tools used to reduce or eliminate the identified risks. In addition to its function as a conformity assessor, internal audit can be an active tool in assessing the performance of the decision-making system.*

**Keywords:** *internal audit, counseling activity, internal control.*

**JEL Classification:** *M42.*

### 1. Introduction

The public internal audit evaluates the management and internal control system, establishes the degree of assurance of management compliance, depending on the risks associated with the assessed objectives, with the application of methods and techniques for collecting and analyzing sufficient and conclusive evidence.

Internal audit, a component of internal control, provides assurance on the functionality of internal control, based on professional norms and standards adapted to the specifics and organizational structure of the public entity.

### 2. Problem statement - Evaluating the performance of the decision - making system

In evaluating the performance of the decision-making system, the main objectives of the internal audit are:

- reporting the entity's management on the findings, consequences and conclusions formulated on the audited objectives;
- formulating recommendations for remedying the identified dysfunctions;
- evaluation of the management and internal control system;
- providing management advice for improvement; processes / activities.

### 3. Research questions/aims of research

The approach of this article is represented by the contribution of the internal auditor on the decision-making system at the level of local public entities.

Based on the research, we will present the main objectives of the internal audit function in the local public administration, in accordance with the requirements of the legislative framework and international audit standards.

#### **4. Findings – Internal audit - active tool in evaluating the performance of the decision - making system**

The public internal audit activity is organized independently at the level of public entities, in the form of a specialized department that is subordinated and reports directly to the manager of the public institution.

In assessing the performance of the decision-making system, the purpose of the internal audit is to assist management in exercising its responsibilities, based on the assessments and recommendations made in the audit reports.

Internal auditors examine the activities of the public entity at all stages, from the initiation and adoption of the management decision to the evaluation of the results recorded as a result of the application of the decision.

- To achieve this goal, the following activities are performed:
- examination and assessment, application of accounting, financial and operational controls and promotion of an operational internal control conduct;
- verification of compliance with approved regulations, policies and procedures;
- verifying the protection of the patrimony of the public entity;
- checking the assurance of the information used by the management;
- evaluation of the results / quality of managerial decisions
- formulating recommendations for remedying the found dysfunctions.

Good financial management in terms of performance is defined by the following characteristics: economy, efficiency, effectiveness:

***ECONOMY = the extent to which human and material resources are obtained in the appropriate quantity and quality with minimum costs.***

***EFFICIENCY = the ratio between the maximum results obtained and the resources used to produce them.***

***EFFECTIVENESS = the degree of fulfillment of the objectives associated with an activity and the relationship between the desired result and the actual achievements of that activity.***

The audit of the decision-making system involves the evaluation of the economy, effectiveness and efficiency with which the head of the public entity organizes, leads and meets the approved general and specific objectives.

During the activity, internal auditors must have direct independence of action and expression of opinion. The head of the public entity will establish the audit areas, according to the managerial decisions and the specific reporting needs.

Although the audit team gives assurance that the entity's objectives are consistent, this is not a guarantee, absolute assurance that the information in the financial statements is accurate.

In this sense, the internal auditor considers: conformity assessment, approved objectives assessment, risk assessment associated with objectives, structural risk assessment as well as system risks or external risks (table no. 1.)

**Table no. 1. Stages of evaluating the performance of the decision-making system**

<b>PERFORMANCE EVALUATION STAGES DECISION MAKING SYSTEM</b>				
<b>Evaluation conformity (regularity criteria / conformity)</b>	<b>Objective evaluation (performance criteria)</b>	<b>Economic-financial risk assessment</b>	<b>Structural risk assessment</b>	<b>Assessment of system risks / external risks</b>
The auditors verify the observance of the legal provisions regarding the organization and functioning of the audited public entity, regulations, own procedures, norms, approved methodologies.	The auditors verify the achievement of the managerial objectives in the approved amount and terms. The degree of achievement on the objective is established as a ratio between the planned managerial objective and the achieved one.	The risks of economic-financial nature are analyzed as well as the measures adopted to limit / reduce / eliminate them.	The auditors analyze the risks of a structural-organizational nature as well as the way in which the managerial decision can lead to structural consequences on the functioning of the decision-making system.	The auditors analyze the influence of system risks or external risks on the elaboration of the managerial decision as well as the effects of the decision at the level of the audited public entity

Source: the author

In the process of evaluating the decision-making system, the internal auditors found situations that led to unfavorable consequences for the public entity: acts of corruption, fraud, illegal spending and loss of assets.

In table no. 1 consequences and risks identified in audit missions regarding the evaluation of the performance of the decision-making system are presented, as well as the associated internal control instruments for their limitation or diminution.

Corruption is illegal, it exists. Corruption concerns the exploitation of the public entity's own resources, the ability to influence officials in order to provide favorable treatment to certain persons.

Fraud is an intentional act on the part of one or more persons, from the management of the public entity, employees or other persons who obtain an illegal or undue advantage. Fraud can be committed by a single person, or in collaboration with people inside or outside the business. Fraud is a highly developed legal concept, the main concern of auditors is fraud causing material distortion in financial reporting. This is different from error, when a material misstatement is caused by an error, for example, by not applying an accounting policy.

The internal auditors during the mission notice different dysfunctions in the organization of the public entity, but it is not in charge of the internal public audit to solve the dysfunctions found. This responsibility belongs to the manager, through his own functional structures.

Considering the experience of internal auditor in the public system, over 18 years, we affirm that the internal audit is a real support to the management of the public entity but also to the external audit. In the reports of the external auditors, the activity of the internal auditor is appreciated, even if the verification operations and techniques are different, both forms of audit evaluate the conformity, regularity and legality of the financial and patrimonial operations.

**Table no. 2. Consequences / risks identified in the process of evaluating the performance of the decision-making system, as well as associated internal control tools**

<b>Consequences and risks in evaluating the decision-making system</b>			
<b>CORRUPTION</b> - illegal activities, in order to influence decision makers, to obtain financial benefits or other benefits.	<b>FRAUD</b> - modification, concealment, substitution, destruction or incorrect presentation of for illegal financial gain or other benefits.	<b>THEFT</b> - theft of money or material goods belonging to the public entity.	<b>MISTAKES / ERROR</b> - inefficiency or incompetence in performing the tasks and activities of the public entity that leads to financial or other losses.
<b>Internal control tools adopted</b>			
<b>CONTROL INTERNAL</b> - approved internal system, provides assurance on the operations performed, the tasks assigned, the approved document circuit, the correct financial reports and in accordance with the legal provisions	<b>FINANCIAL CONTROL</b> - a set of activities, provides assurance on the responsibility and integrity of financial management and reporting.	<b>INTERNAL AUDIT</b> - analyzes and assesses all forms of internal control organized at the level of the entity, in order to grant the degree of assurance.	<b>EXTERNAL AUDIT</b> - external activity of evaluation and appreciation of the financial statements and other types of reports that offer certainty regarding the credibility and legal compliance.

Source: the author

## 5. Conclusions

The internal auditor, through the help given to the management of the public entity, also represents an assistance function. The entity manager is assisted by the internal auditor in order to solve the problems related to the adopted decisions, in order to obtain a better control over them. The auditor is increasingly adopting the profile of a counselor, of a consultant we can call spontaneously, of a specialist. The auditor is not obliged to give a resolution, he advises, assists, recommends but does not decide. According to the norms and legal procedures that give it authority, through its actions, the internal auditor helps to improve the control, to improve the performance and implicitly to achieve the objectives of the entity.

The public internal audit is an active tool in evaluating the performance of the decision-making system when: the internal managerial control system is implemented, periodically monitored and the general management adopts risk management measures and their consequences on the general and specific objectives of the entity.

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