

OPTIMIZING INTERNAL AUDIT PROCESS FOR EFFICIENT OF MAIN ACTIVITIES IN LOCAL ADMINISTRATION

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ABSTRACT: *Internal audit contributes to the oversight of the public sector, providing senior managers and audit committees with assurance that their management systems and practices are well-designed and operating efficiently. Being an independent and impartial diagnostic tool, internal audit also serves as a valuable resource for taxpayers, ensuring that the public sector's systems of oversight, accountability, and control are operating as intended. The objective of the article is to examine and find ways and strategies to enhance internal audit processes in the public sector. It aims to identify specific issues faced by public institutions regarding internal audit and provide solutions and recommendations to streamline and improve audit processes, thus ensuring the efficient use of resources and better governance in the public sector.*

Keywords: *internal audit, diagnostic, public sector, risks, administration*

JEL Classification: *M42, H83, H89*

1. INTRODUCTION

The role and value of internal auditing are in line with the requirements of today's public sector, requirements arising from the increasing need for oversight, increasingly complex issues of public trust in administration, and the erosion of public trust. Internal auditing plays an essential role in today's public sector, as it is a crucial tool to ensure transparency, accountability, and good governance in administration. This role and the value of internal auditing indeed align with the growing demands of the public sector regarding oversight, the complexity of issues related to public trust, and the management of eroded trust. In an environment where transparency and accountability are becoming increasingly important, internal auditing provides an objective framework for evaluating the activities and decisions of public administration. Through auditing, inefficiencies, risks, and possible abuses can be identified, thus contributing to the improvement of transparency and accountability in public administration.

This helps maintain its reputation and builds public trust. As a source of learning, internal audit provides public sector managers with information and equips them with specific knowledge and expertise in the areas of public sector governance, management, and risk control. In this way, internal audit assists senior managers in fulfilling their management responsibilities in an ever-changing and increasingly complex environment. As a source of

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operational advice, internal audit provides public officials with foresight, offering honest, reliable, and relevant advice on difficult aspects of public institutions (HAINOUS et al., 2021).

The need for oversight in the public sector is continuously growing. Internal auditing plays a vital role in monitoring and assessing compliance with laws and regulations, ensuring that public administration adheres to current standards and norms. This helps prevent and detect abuses and corruption.

The challenges facing public administration have become increasingly complex, from managing financial resources to public policies and strategies. Internal auditing offers a systematic and structured approach to assessing and managing these complex issues, contributing to better-informed decision-making and resource optimization. Internal auditing can play a significant role in restoring and maintaining public trust in administration.

By identifying and addressing deficiencies and inefficiencies, public administration can demonstrate that it is taking steps to improve its services and processes, which can contribute to rebuilding public trust in government institutions. Through internal auditing, public administration can evolve and adapt to the new challenges and requirements of contemporary society (Tabirca & Radu, 2020).

Internal auditing in the public sector is essential to ensure transparency, accountability, and the efficient utilization of public resources. However, there are numerous specific challenges that public institutions face regarding internal auditing. These challenges may include limited resources, the complexity of government operations, and an increase in reporting and compliance requirements (EPSAS WG 17/14, 2017).

This paper examines and proposes methods and strategies for improving internal audit processes in the public sector. It aims to identify specific issues faced by public institutions regarding internal auditing and to provide solutions and recommendations for streamlining and enhancing audit processes, thereby ensuring the efficient use of resources and better governance in the public sector.

2. LITERATURE REVIEW

The term audit comes from the Latin word *audit-auditare*, which means "to listen", but audit has been spoken about since the time of the Assyrians, the Egyptians, during the reign of Charlemagne or Edward I of England. Activities of audit were realized over time in Romania as well, but they had other names.

The use of the term audit in the sense used today is relatively recent and dates back to the economic crisis of 1929 in the United States of America, when organizations affected by the economic recession had to pay large sums for external auditors who performed the certification of the accounts of all companies listed on the stock exchange (Ghiță et al., 2010).

If at the beginning the internal audit function had as its main purpose the verification of the sincerity of the people who had financial responsibilities, as recorded in other research (Dobrețeanu & Dobrețeanu, 2002), in time it evolved its scope expanding to the entire public or private organization.

In Romania, the function of internal audit has undergone many transformations in a short period, so that today there is an adequate intellectual framework for both public institutions and private sector companies. However, managerial education is deficient in terms of the role, place and importance of internal audit within public institutions as well as the impact of internal audit on the managerial act itself.

In the specialized literature, the term audit has the following meanings:

Internal audit is a function and the internal auditor a person who has obligations and these are not minor and concern the entity as a whole (Ghiță, 2009:268).

Auditing is an independent evaluation function of the organization. It provides an examination and evaluation service of its activities, according to the Institute of Internal Auditors (Munteanu, 2002:62).

The audit represents, within a company, an independent activity of assessing the control of operations, in the opinion of the French Institute of Internal Consultant Auditors (Afloarei et al., 2002).

Internal auditing is (considered) an independent and objective activity that gives an organization assurance about the degree of control it has over operations, and contributes to adding value. Internal audit helps this organization achieve its goals by evaluating, through a systemic and methodical approach, its processes, risk management, control and business management, and making proposals to strengthen their effectiveness, as reported in other research (Voinea, 2016: 11).

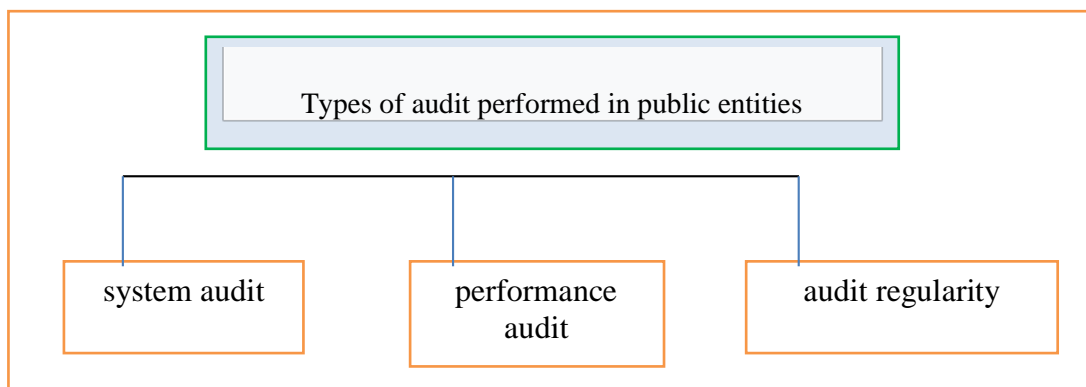
In Romanian legislation, internal audit is seen as "an independent and functionally objective activity, which provides assurance and management advice for the good administration of public revenues and expenses, improving the activities of public entities in order to achieve the objectives in a systematic and methodical way. approach, which evaluates and improves the efficiency and effectiveness of the management system based on risk management, control and governance processes." (Law 672/2002, article 2, letter a).

Analysing the definitions above, we can conclude that the audit is a control function, carried out by qualified persons according to certain norms, practices and well-established rules, but also an independent and objective activity that adds value to the public institution or private company in which it is applied, helping it meet its goals, managing risks and increasing business effectiveness.

We must not confuse "internal audit" with "internal control". Internal audit It is the function that evaluates the internal control of each individual, detects in its dysfunctions and helps managers improve it by formulating recommendations (Renard, 2012:23).

The internal audit is an internal activity of the entity, organized separately, subordinated to the management, it is the independent, assurance and advisory activity carried out with the aim of adding value; it uses specific techniques and procedures, and its main objective is the risk approach, control and management processes exercising over all activities and processes (Figure 1).

Figure 1. Types of audit performed in public entities



Source: Authors projection

Internal audit and external audit, from a structural point of view, complement each other as activities, something regulated by professional standards (Ghiță, 2009: 617-636, Standard 2050-Coordination and Standard 2440-Dissemination of Results)

Although there are substantive differences, the finality of both processes shows us that they support and demonstrate each other.

3. SPECIFIC ISSUES ENCOUNTERED IN INTERNAL AUDITING IN THE PUBLIC SECTOR

While internal audit in the public sector focuses on evaluating the quality of budgeting, financial, and accounting information and assessing the extent to which organizations have met their established objectives, the external function of auditing is performed by Supreme Audit Institutions (SAIs). SAIs are independent governmental bodies responsible for conducting external audits of public sector entities (Kamara, 2023).

a. Limited human and financial resources: Public institutions are often faced with insufficient financial and human resources to carry out internal quality audits. This can easily be deduced from audit teams often understaffed and without the ability to cover all risk areas in the entity.

Table 1. Personal and Budget SAI

Country	Staff number expressed in FTEs (no)	SAI Budget (million euros)	SAI budget per SAI staff member (euros)
Italy	2.843	502,18	176.637,35
Romania	1.966	88,00	44.760,94
Poland	1.576	68,00	43.147,21
Germany	1.080	187,00	173.148,15
European Court of Auditors	969	175,00	180.598,56
France	819	118,00	144.078,14
Grece	778	36,70	47.172,24
Spain	733	78,00	106.412,01
Portugal	530	29,00	54.716,98
Hungary	497	33,70	67.806,84
Czech Republic	459	42,90	93.464,05
Belgium	452	60,40	133.628,32
Bulgaria	398	12,04	30.251,26
Sweden	322	38,70	120.186,34
Austria	295	37,40	126.779,66
Croatia	293	12,40	42.320,82
Slovakia	291	13,90	47.766,32
Netherlands	276	39,50	143.115,94
Denmark	269	30,00	111.524,16
Lithuania	244	10,02	41.065,57
Ireland	191	15,90	83.246,07
Latvia	161	7,45	46.273,29
Finland	140	17,00	121.428,57
Cyprus	137	8,00	58.394,16

Country	Staff number expressed in FTEs (no)	SAI Budget (million euros)	SAI budget per SAI staff member (euros)
Slovenia	125	8,30	66.400,00
Estonia	80	5,86	73.250,00
Malta	58	3,90	67.241,38
Luxemburg	32	5,20	162.500,00

Source: <https://op.europa.eu> -Statistics

In the Table 1 from the official website of the Publications Office of the European Union, you can see the structure of the budgets and staff of the Supreme Audit Institutions, from the EU countries as well as the European Court of Auditors, so you can easily see that Italy has the largest budget allocated 502.18 million euros, and at the opposite pole Malta with a budget of 3.9 million euros. Bulgaria has the lowest budget expressed in euros per member of the SAI, 30,251.26 euros, compared to the largest budget of the European Court of Auditors, 180,598.56 euros, Romania being near the bottom of the ranking.

Insufficient financial resources can reduce the funds allocated to the internal audit function in public institutions, which has a negative impact on the recruitment and retention of qualified auditors. With tight budgets, public entities can compete to attract top-of-the-line auditors, leaving the losers with a team smaller than necessary to effectively oversee organizational operations.

The shortage of human resources aggravates the problem of internal audit. Even if more financial resources were available from public entities or with support from the state, finding and maintaining qualified auditors in institutions will always be a challenge, as these professionals are in high demand, both in the public sector, as well as in the private one. The total or partial lack of qualified auditors can lead to overburdening existing staff who will try to cover a wide range of audit areas, and implicitly the review often becomes superficial in assessing risks and potential problems.

The consequence of these resource limitations is that many times, public institutions prioritize certain risk areas to the detriment of others or reduce the frequency of audits, leaving potential critical aspects of uncontrolled operations. Selective audit approach can inadvertently expose organizations to susceptible risks and vulnerabilities that might otherwise have been identified through an extensive audit program.

b. Complexity of Government Operations: Often government operations are very complex and involve multiple departments and audit programs. Auditing them involves a deep understanding of complex processes and rules.

Complexity of organizations transformed power relations: the owner – or "Main" – gradually loses contact with the management of his organization. It is the shareholder who no longer has the means or capacity to manage live; It is public authorities that lose touch with management Organizations. (Renard, 2010:76).

The complexity of government operations is a significant challenge that auditors face when tasked with examining the activities of public institutions. Governments, whether central or local, are usually, administratively, large and multifaceted entities that oversee a diverse range of functions, services and programs. This complexity results from several factors:

Governments are responsible for different departments and programs, each with its own mission, objectives and specific functions according to the area of activity, so they can include areas such as education, health, transport and infrastructure, defense or social services. Auditors must have an integrative understanding of the complexity of these diverse areas to effectively assess their performance or achievement of objectives.

Due to the integration into the EU and the desire to obtain facilities for accessing European funds, recently, many entities from the private sector and non-profit organizations show their interest in the implementation of the internal audit function (Ghiță et al., 2010:82-83)

In Romania, on the recommendation of the European Commission, internal audit was implemented in the Public Sector from 2002 and in the private sector from 2007, so we are talking about a pre-aderation and a post-aderation period.

Government operations at the national, county, or local level often involve interconnected processes that span multiple state departments and agencies, so auditors must understand how these processes interact, relate, and affect each other in order to assess efficiency and effectiveness.

Governments are subject to a myriad of laws, regulations, EU directives and compliance requirements that vary by sector, jurisdiction and the objectives of a government program, so internal auditors must have a detailed knowledge of these laws, regulations and rules to ensure that government operations are conducted within the letter and spirit of the law (European Commission, 2023)

Governments and central or local public authorities manage large amounts of data and information, which are often stored in IT systems and in different formats, so auditors need tools and expertise to access, analyze and interpret this data accurately to issue conclusive audit reports based on data integrity and reliability.

Examining how governments or central or local authorities in the territory allocate human and financial resources to different programs is a complex task, and internal auditors must assess whether resource allocation is effective and whether budgets align with government strategic priorities and population needs.

The operations of government authorities, whether central or local, are assessed not only on processes and compliance, but also on outcomes and performance. Auditors must assess whether government programs are achieving their desired results and whether public funds are being used effectively to achieve the desired goals.

Given this complexity, auditors dealing with the public sector need a diverse set of capabilities and skills, which include a deep and integrative understanding of government structures, processes and regulations as well as an analytical capacity for synthesis. Auditors often work in collaboration with subject matter experts within government structures to obtain accurate information about the programs and operations being audited.

It is very important, effective communication of audit findings, this is crucial because the complexity of government operations shown by audit reports must convey detailed information in a clear and easy to understand way to inform decision makers at the political level but also the population about accountability, efficiency and effectiveness of government policies.

In conclusion, the complexity of government operations presents a great challenge for auditors, requiring them to possess a multilaterally developed skill set and a comprehensive knowledge of government norms, structures and regulations in order to assess and report effectively on the performance and accountability of public institutions.

c. Reporting and Compliance Requirements: Public institutions are required to adhere to numerous reporting and compliance requirements, which can range from laws and regulations to accounting and ethical standards. Auditing must ensure compliance with these requirements.

4. DISCUSSION

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Chartered Institute of Internal Auditors, 2023)

In order to improve the audit process in the public sector, several aspects must be considered:

a. Human resource development: It is absolutely essential that we invest in the development of internal audit staff through professional training and certification of internal auditors. They must have good training to be able to address the complexity of central or jurisdictional government operations, however, analyzing the above table we see that even if the staff is more numerous (the case of Romania) the budget is not in agreement with the staff structure so that it is very it's hard to keep staff loyal as long as the budget is not commensurate with the effort.

b. Use of technology: The use of technology in internal audit can help to streamline internal audit processes within public institutions. Audit software, data collection and analysis, and reporting tools can help auditors identify potential risks and assess entity performance (BinSaeed et al., 2023).

The rapid change of information technologies at the same time as the development of the complexity of information systems lead to the reduction or elimination of traditional audit functions, which makes it necessary to have new procedures for verifying the accuracy of financial information contained in complex databases. (Radu, 2009)

Emerging technologies have the potential to increase audit quality while adding value. Audit is transitioning from a reactive, backward-looking activity to a proactive, predictive, forward-looking one that operates in real time. It offers a way to assist businesses by delivering timely information (Butaka, 2022).

c. Evaluation and prioritization of institutional risks: Internal audit must concentrate its efforts on the evaluation and prioritization of risks based on their impact on the goals and objectives of the public institution in accordance with the central objectives, which will implicitly lead to an efficient allocation of resources.

Public entities must ensure the existence of the internal audit function in accordance with the regulations in force, considering that it will provide independent and objective assurance on the appropriate way of risk management, control and governance. (LAW no. 672/2002: art. 2).

The main recommendations for Better Governance in the Public Sector are:

1. Transparency and Accountability:

The free and unrestricted access of the person to any information of public interest, defined as such by Law 544/2001, constitutes one of the fundamental principles of relations between individuals and public authorities, in accordance with the Romanian Constitution and international documents ratified by the Romanian Parliament. (LAW no. 544/2001: art. 1)

Governments should promote transparency and accountability in the management of public resources so that the public has access to information about internal audit and its results and even the dissemination of these reports.

National financial accounting and reporting standards generally understand transparency as a necessary aspect of reporting, without providing illustrative definition or even actionable guidance (EPSAS WG 17/14, 2017:5)

2. Performance Monitoring and Reporting: Public institutions should develop their own performance monitoring systems collection of data on specified indicators to provide

management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds(OECD,2009:1) in accordance with the rules and regulations in force and periodically report through dissemination the results of internal audits, thus they will help to identify and solve deficiencies at a centralized but also individualized level (Kohtamäki & Olsson, 2018).

3. *Public participation*: Governments should encourage public participation external to the audited functions in the internal audit process, even if only at the observer level, public involvement can provide valuable information on government processes in public institutions.

Public participation is a critical input to government activity, and developing effective strategies, programs and projects. Failing to adequately engage the public risks alienating the community and creating negative impacts through poorly informed and implemented decisions (Better practice guide, 2015:3)

Figure 2.



Source : www.audit.vic.gov.au

4. *An effective internal audit reform* can only be completed if it is carried out together with the management reform at the level of each entity but also centrally, thus there should not be different implementation deadlines for both areas. Internal audit reform must consider the institutionalized management framework and operational environment, as well as the country's unique mode of development compared to other countries. Therefore, the idea of a rapid change or "revolution" at the audit level independent of that of management should be abandoned.

5. Self-training of internal auditors is not enough, and the 15 working days of participation in the training courses are insufficient. Internal auditors must improve their knowledge, skills and other competencies through a continuous professional training. In this sense, internal auditors have the obligation to participate in activities of professional training at least 15 working days per year. (METHODOLOGICAL RULES regarding the organization and exercise of the public audit activity of the Ministry of National Education according to H.G. no. 1086/2013:97).

The original purpose of internal audit in countries with poor public sector management should also be taken into account by verifying, moreover, what is the purpose of financial regulations, and the question that arises in this context is: "What kind of management reform is needed and what should be the internal audit programs to help improve financial performance and regularity of control both in weak management circumstances but also in situations where the quality of management is improving?".

6. *If in the management of a company, the main actor is the general manager (Ghiță et al., 2010: 50) The internal auditor is the one who will be the first to alert the manager about the adjustments to be made in any public institution related to procedures, norms or operating rules, but the last word will be the manager or management of that public entity (Renard & Nussbaumer, 2011).*

5. CONCLUSIONS

Internal audit in the public sector is absolutely necessary for ensuring good governance in public entities as well as for the transparent and efficient use of public resources. Despite the challenges of all kinds, specific to the public sector and faced by public entities, it is absolutely necessary to constantly develop strategies and implement solutions at the central and private level to improve internal audit processes. By prioritizing investments in human resources but also technology and assuming the prioritization of risks in public institutions, an efficient and productive internal audit can be ensured as well as better governance.

The activity of internal audit is complex, requires thorough professional preparation, involves ongoing relationships with line management and top management, and last but not least, entails a systematic readiness for each internal auditing mission (Demetean & Predescu, 2010: 177).

Internal auditors and managers should be viewed as partners rather than adversaries, sharing the same objectives, including the effectiveness of the management process and achieving internal targets reporting to the highest hierarchical level, thus involving management in addressing identified issues.

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