ORGANIZATION OF THE INTERNAL AUDIT ACTIVITY TO PUBLIC ENTITIES IN ROMANIA IN THE PERIOD 2004-2012

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Abstract:
In Romania, internal audit is governed by Law no. 672/2002[3], there is a normative and procedural framework for continuous development, and auditing standards have become a practice in the vast majority of entities[1]. This paper analyzes the stage of the internal audit activity to public entities in the Central Administration and Local Administration in the period 2004-2012.

Key-words: internal audit, public entity, risk management, efficiency.

Clasificare JEL: M42

1. Introduction

Internal audit is a profession that has always redefined over the years, from a desire to respond to the ever-changing needs of entities. At first, focused on the problems of accounting, internal audit objectives were shifted to identifying the principal risks of the entities and their internal control and assessment. In general, the managers expected support in the decisional processes, through conclusions and recommendations provided by internal audit, which requires the audit service to become all the more valuable for management. Internal audit is implemented by applying the internal audit standards recognized internationally.

In accordance with Law no. 672/2002 on internal audit[3] in Romania, it defines the internal audit function in accordance with international auditing standards accepted internationally, and the basics of the methodology to implement internal audit in central and local public administration, as follows: internal audit is an independent function and objective activity, insurance and advice, designed to add value and to improve public entity activities; help the public entity to meet their objectives, through a systematic and methodical approach, assess and improve the effectiveness and efficiency of risk management, control and governance processes.

In Romania, the Organization of the work of internal audit in the public sector is performed in a decentralised system, implying that public entities are obliged to organize their own bins for internal audit, in accordance with the legal regulations.

The internal audit section is necessarily at the level of each public entity, by decision of the persons responsible, under article 11 of Law no. 672/2002[3]. Public institutions and public entities subordinate to the coordination or under authority, for which the leadership of the hierarchically superior issued the decision non Foundation of the Division of internal audit, make exceptions to these provisions.

Responsibility for the Organization and holding of internal audit activity is a public entity, that driver must determine the size of the internal audit Department on the basis of the volume of activity and the size of the associated risks, so as to ensure audit activities included in the field of internal audit[13].

2. The legislative and regulatory framework

Law no. 672/2002 on internal audit[3] was covered internal audit public institutions on the formation and use of public funds, and management of public patrimony, as independent and objective functional activity.


The legislative framework of internal audit is completed with the normative framework regarding the organization and conduct of internal audit, represented by:

✓ General rules on the pursuit of the internal audit: Government Decree no. 1086/2013[9];
✓ Rules relating to the coordination and conduct of national accreditation processes and continuous training of internal auditors in the public sector and individuals: Government decision no. 1259/2012[10];
Rules relating to the system of cooperation to ensure the internal audit function: Government decision no. 1183/2012[11];

Rules on the establishment of internal audit committees: Government decision no. 554/2014[12].

Internal audit structures in the public system, based on the general methodology, and developed their own specific rules for the organisation and operation of the internal audit activity in accordance with the legal provisions.

3. Organization of internal audit at the level of public entities

In Romania, internal audit at the level of public entities, from the structural point of view, is organised in such a way:

- Internal Audit Committee (IAC) - works in addition to the Central Harmonization Unit for Internal Audit and is an advisory entity, having the role to act in order to define the strategy and improvement of the work of internal audit in the public sector.

- Central Harmonisation Unit for Internal Audit (CHUIA) - established within the Ministry of Public Finance, directly subordinate to the Minister, having the order to ensure the optimal development of internal audit in the public sector in Romania, periodically informing the Ministry, the Government and the European Commission on the progress made.

- Internal Audit Compartment – was directly subordinate to the leadership of the public entity and, through its powers, should not be involved in the drafting of internal control procedures and activities subject to the internal audit.

The Internal Audit Compartment organizes at the level of each public entity, by decision of the persons responsible, in accordance with the provisions of art. 11 of Law no. 672/2002[3]. Exceptions are the following:

- public entities at the central level which is exercised the function of authorising officer for loan principal and manages an annual budget of up to RON 5 million and which do not have established internal audit department. From these public entities of the internal audit activity is made of the Ministry of Public Finance, via CHUIA based protocol. The internal audit missions planned to these public entities, approved in advance by their rulers, are included in the activity plans of the CHUIA and are made on the basis of detailed procedures for the exercise of the activity of internal audit specific developed by this;

- the small public institutions, which are not subordinated to other public entities, as defined in art. 2 s) of Law no. 672/2002(1). These internal audit is performed by the compartments of internal audit of the Ministry of Public Finance;

- public entities under the subordination/ in coordination / under the authority of other public entities, for management of hierarchically superior organ has not given its consent for the establishment of internal audit compartment. From these public entities, internal audit work is performed by the internal audit compartment to the hierarchically superior organ, in accordance with art. 11 f) of Law no. 672/2002(2);

- local public entities which cooperates to ensure the internal audit function. From these public entities, the internal audit is performed by the internal audit compartment, established at the level of the public entity/ associative organisation structure.

Public entities which carry out annual budgets in lei equivalent of 100,000 euro will ensure the internal audit activity through one of the ways provided for by Law no. 672/2002.

The public entities that have organized internal audit compartments and public institutions become small, which are not subordinated to other entities, notify the internal audit compartments of the Ministry of Public Finance of the new statute, within 30 days from the date of completion of the condition stipulated in art. 2 s) of Law no. 672/2002(1). Following accomplish the conditions of insertion in the small public institution is in the responsibility of the head of the institution concerned, which shall notify the internal audit compartments of the Ministry of Public Finance, regarding his status.

4. The organization of the internal audit activity to public entities of Central Administration in the period 2004-2012

Entry into force of Law no. 672/2002 internal audit requirements[3] has led to the beginnings of the reorganisation of the structures and activities of internal audit within the public institutions.

The public entities of the Central Administration(3), the organization of the internal audit activity during 2004-2012 shall be presented so[13]:

- In 2004, all 53 of the institutions of the Central Government, whose leaders are instructing senior credits, have organized public internal audit activity. Of the public entities in 2319 subordination, coordination or under their authority hierarchically, higher level management decided to organize their own structures of public internal audit at 1730 units. At the end of 2004 worked 68% of the public internal audit structures established at the level of central public administration institutions (1622), of which the subordinate to 1569.
In 2005, the central public administration institutions, in number of 53, have organized public internal audit activity, except to the National Supervisory Authority of the Processing of Personal Data, which was established in 2005 and not found to hire audit staff. For public entities in subordination, coordination or under the authority of other institutions, in number of 2360 units, the hierarchically superior management decided to organize their own structures of public internal audit at a number of 1771 units. As a result, of the total Central Government institutions (2413) have organized the audit structures actually operates a total of 1823, which is 75%.

In 2006, all 51 of the central public administration institutions, in capacity of chief accountant and have organized the activity of the internal audit structures with staff exclusively for this activity. For public entities in subordination, coordination or under the authority of other institutions (1212 units), the hierarchically superior management decided to organize its own internal audit structures to 962 units, and for the rest of the 250 units, has assumed the responsibility to exercise directly the internal audit function. In consequence of all central public administration institutions (1263), in 2006, organized internal audit structures that actually works, a number of 1013 entity, which represents 8% of the total, registering an increase of 5% compared with 2005.

In 2007, 49 central public administration institutions (ministries and national authorities assimilated as chief accountant), organized public internal audit activity, except making two central institutions: the National Broadcasting Council and the Economic and Social Council, the internal auditor was not occupied thanks to the impossibility of adequate staff bring, although there have been organized several contests. At the level of subordinated institutions, in coordination or under authority, organized internal audit activity a number of 708 entities of the 1151 public entity, in other 443 entity, the audit activity being exercised by the higher institution. In 2007 it was tended by the increase in the number of public institutions subordinate to the internal audit activity is exercised by internal audit structures hierarchically superior public entities, question from 20.6% in 2006, to 38.5% in 2007.

The internal audit activity, in 2008, was organized in 52 institutions. Compared to 2007, the number of central public administration authorities increased from 49 to 54, thanks to the reorganization that took place at the end of 2008, through the establishment of 5 new chief accountant: the Ministry of Economy; the Ministry of Tourism, the Ministry of Youth and Sports, the Ministry for relations with Parliament and the Academy Scientists from Romania. Overall, the level of employment provided for in the establishment plan for 2008 for the internal audit activity in the Central Administration, was 83%, in growing with 3% compared to 2007.

In 2009, compared to the last 2 years, finding a stabilization of the number of posts for the internal audit of the Central Administration, with a slight trend of increase in the total number of posts required, that may be following the efforts made in previous years, to improve the level of implementation of internal audit, at the level of the Central Administration, but a decrease in the number of posts occupied also, from 1807 in 2008, to 1784, in 2009, increasing the spread of occupied posts-vacancies. A factor with impact to employment vacancies for internal auditors was the suspension of employment of public functions within the public administration. So, the degree of occupancy of posts was 81,3%, down compared with 2008, when was 83,7%.

In 2010, of 54 entities, who had the obligation to provide, in accordance with the provisions of the law, their own compartments, internal audit activity was organized only to 51 public entities, representing a certain degree of assurance the internal audit function of 94%. At the same time, of the total of 388 posts, provided for in the organization chart of the central public entities were 341 posts, occupancy was 88%, and the public entity-level subordination, coordination or under their authority, from the total of 1677 posts approved, were occupied 1359 posts, occupancy was 81%. In relation to 2009, has been a reduction in the number of posts, so for those approved by the organizational chart, which fell from 2431 in 2009 at 2065 posts in 2010, as well as for those occupied, which fell from 1982 posts in 2009 at 1700 posts in 2010. The reduction of posts was due to the decrease in the total number of audit structures, within the public entities subordinate, from 925 in 2009, from 822 in 2010.

In 2011 continued concentration phenomenon of internal audit at the level of ministries, authorities and other public institutions, being a central tendency of decrease in subordinated units, in coordination or under authority who maintained the organizational chart internal audit section, so a number of 1.125 units, of which 795 held its own internal audit departmentand, for the other 330 units, the internal audit activity is ensured by the structure of audit to the hierarchical superior public entity. According to the data of the audit structures of the central public entities, employment plan for 2011 has been established and approved for the 1.965 posts, which were occupied 1.588 posts. Towards personal needs, expressed at the audit structures, for performance of obligations to specific objectives, the level of employment of internal auditors in central public entities for 2011 was 80,81%.

In 2012, internal audit was organised at 1246 public entities of 1349, which corresponds to a level of assurance of the organizational framework of 92%. The internal audit activity was ensured by own compartment to 798 public entities (98,31%) to public entities whose main leaders are chief accountant and 57,36% at the level of subordinate entities, in coordination, or under the authority of ministries, public authorities and other institutions. The most common cause of it is not organized internal audit to subordinate entities, in coordination, or under the authority of ministries is due to the small size of their (37,25%) and lack of compliance of the public entity's leader to legal obligation to request the opinion of the hierarchically superior authority for establishing and maintaining a functional internal audit compartment (32,25%).
5. The organization of the internal audit activity to public entities of Local Administration in the period 2004-2012

At the level of the public entities of local administration(4), the organization of the internal audit activity in the period 2004-2012 it presents such [13]:

- In 2004, 2847 units of 2914 public entities, had the obligation of its own internal audit structures for a total of 2847, in which a number of 674 units have set up their own internal audit structure (24%). The county audit structures of the Ministry of Public Finances ensure regular audit of the small institutions of local public administration (with an annual budget of less than 100.000 Euro).
- In 2005, a number of 679 units of 2556 public entities, have set up their own internal audit structures, but the vast majority of them were under the rule of functions only one or two posts of auditors, which is not sufficient for the proper performance of complex tasks incumbent upon the internal audit compartment.
- In 2006, of 2625 public institutions, they are required, under law, to organize the internal audit compartment, only a total of 763 units have set up their own internal audit structures, which represents a rate of 29%. Compared with 2005, the number of entities that have organized compartments for internal audit has increased by 84, what is the progress in the implementation of internal audit at the local level.
- The organization of the internal audit activity in 2007, make further problems, due to the reduced number of local public entities that have organized this activity. Thus, it organized internal audit activity only 916 entity of 3171 administrative-territorial units, which represents about 30% of the total, with a slight increase compared with 2006, when they accounted for 29%
- The degree of implementation of the audit function in 2008 is 41% of the total public entities, increasing by 11% compared to 2007.
- In 2009, 1352 of 3226 administrative territorial units (42%) have fulfilled the legal obligation on the organisation of the internal audit activity, in the sense that they have provided for in the organization chart of the internal audit compartment. The internal audit activity was carried out effectively within 998 local public entities (chief accountant). Of all these, only 378 has organized the internal audit activity in accordance with the current legal framework, namely, the employment of full-time internal auditors, officer who have complied with the procedural and methodological framework. The most common form of exercise of the internal audit in 2009, it was through service contracts (from 493 local public entities). At the same time, 127 local public entities, has been carried out internal audit through contracts of employment with partial period.
- In 2010, only 1351 entities of 3225 public entities have fulfilled the legal obligation of ensuring the internal audit function, which is 41,89%, and of these only in 1129 entities took place effective internal audit activity. The internal audit activity carried out within the framework of these entities took place, in the case of 560 entities by organizing for internal audit compartment, in the case of 525 entities, on the basis of contracts for the provision of services and in the case of the 44 entities based on contracts of employment part-time. The number of occupied posts in the local public administration entities was, in 2010, of 940 posts, compared with a minimum of required of 3225 posts estimated. The scarcity of posts occupied in the local public administration are located at 2285, implying a degree of occupancy of 29,14%. Of 1351 internal audit structures, established at entity-level local government, namely communes, cities, municipalities, counties, most of them (over 90%) are organized in the form of compartment, with just one post of internal auditor.
- In 2011, 1,156 units of 3221 administrative territorial public entities, organized internal audit according to the legal framework, which is 35,89% of units, namely: 729 through its own compartment, 427 through cooperation. In subordination, coordination or under the authority of administrative-territorial units worked 4,058 units, of which 155 have organised their own internal audit compartment, and for other 3.903 units, the internal auditing is ensured by an audit structure of public entity located within the hierarchical superior. The main reason which led to the failure of the audit in the audit compartments was vacancies of internal auditors. The number of subordinate units, in coordination, or under the authority of administrative-territorial units had a downward trend, recording an average annual rate of decrease of 32%, which led to the concentration of internal audit activity at the level of administrative-territorial units. The degree of organisation of activity of internal audit of the local administration, in 2011, was positively influenced by the increase in the number of territorial administrative units that joined the associative structures of local public administration.
- In 2012, internal audit was held at 1317 territorial administrative public entities of all those 3228 existing. In subordination, coordination or under the authority of administrative-territorial units have operated in 7090 units, of which 4242 have ensured the organizational framework for internal audit activity. The degree of organization of internal audit the lowest registered at municipalities (35,51%) and to subordinate entities, in coordination or under their authority (34,25%). Also an inadequate level was registered at cities (71,43%) and from subordinate entities, in...
coordination or under their authority (46.99%). The internal audit activity was ensured by its own compartment at 940 public entities, namely 23.48% of territorial administrative units and 2.57% entity-level subordinate, in coordination, or under the authority of the territorial administrative units.

The subordinate entities, in coordination, or under the authority of the territorial administrative units, the causes of internal audit was not organized, cang group on the following categories:

• **outsourcing of internal audit activity**: the leaders of cities and municipalities, decided organization of the internal audit activity based contracts for provision of services, mainly, taking into account only the cost savings achieved and can easily be used to contract external services, in relation to the procedure of employment of officer, but without taking into account the conformity and quality of service received;

• **the small size of entities**: volume and complexity of the activities and size of the associated risks, low numbers of staff employed within the entities;

• **the abolition of internal audit compartments**: through restructuring of the unoccupied stations, a result of the reduction in personnel schemes in order to rationalise the budgetary expenses;

• **non observance of the art. 11, f) of Law no. 672/2002(2)**: the subordinate entity, owned in coordination or under authority has not requested the agreement of the public entity hierarchically superior to the establishment and maintenance of a functional compartment of internal audit;

• **legislative and budgetary limitations restrictions**: legislative restrictions on the recruitment of staff, due to the necessity of restraining the personnel expenses and reduce the budgets.

6. Conclusions

In conclusion, the assurance of the organizational framework for public internal audit activity is mainly conditioned by the existence of internal audit structure to audit all activities carried out within the framework of public entities and performance of general objectives of the internal audit.

In relation to the categories of public entities and with the decisions of the leaders, what are the chief accountant, on the establishment and maintenance of organizational and functional framework necessary for the internal audit activity, identifies the following ways of ensuring the organizational framework of the internal audit [13]:

- **own compartment**, internal audit is ensured through their own organized compartments for each public entity, directly subordinate to the head of these entities;

- **hierarchically superior organ**, internal audit is ensured by the public internal audit compartment, organized in the hierarchically superior public entity, on the basis of head decision;

- **cooperation system**, internal audit is provided in common by several local public entities, by the internal audit compartment, established by organising local public entities or public utility associative structures of local administration, based on the decisions of the local councils;

- **certified individuals**, on the basis of contracts for the provision of services.

In the central public administration, as a result of decisions taken by the central leadership to ministries, authorities and other public institutions, there is a continuous process of reorganization and restructuring of the internal audit structures, which has led to the compartment of the subordinate units, in coordination or under authority of the internal audit activity in the central structure of the Ministry authorities and other public institutions. In the context of the economic crisis and budgetary limitations, the decisions concerning the abolishment of the internal audit compartments have not been the most effective, because it does not justify giving up an organizational structure whose primary purpose is to identify weaknesses and dysfunctions facing the entity and contribute to the improvement of its activities through the formulation of appropriate recommendations.

In the local public administration, the main causes of existence of a large number of public entities that have not organized the internal audit activity is the difficulties of selecting locally appropriate personnel, budgetary constraints, but also the lack of concern by the management of some public entities to organize this activity and to ensure transparency in the use of public funds. Although the trend concerning the exercise of the internal audit is one ascendant, since 2009 was registered a constant reduction trend in the number of administrative territorial units which perform internal audit through its own compartment in an average annual rate of 9%. This reduction in the number of entities that have organized and audited by its own compartment was linked to increase the number of units that have performed internal audit service-provision contracts, encountered, especially in municipal administrative-territorial units.

One of the solutions adopted internationally is the combination of several administrative-territorial unit with the purpose of carrying on the internal audit activity in common, thus facilitating the organization of a solid internal audit compartment, in terms of the number and quality of staff, reducing the costs involved in carrying out this activity, at the same time.
7. Endnotes

(1)***Law no. 672/2002, art. 2, s) - small public institution-an institution which runs an annual budget of up to the equivalent in lei of 100,000 euro over a period of 3 years in a row

(2)*** Law no. 672/2002, art. 2, f) - public entity subordinate leader, in coordination of the authority or another public entity shall establish and maintain a functional compartment of public internal audit, with the consent of the superior public entity; if such consent is not given, the audit of the entity in question is carried out by the internal audit compartment of public entity who decided this

(3)*** ministries, authorities and other public institutions, public entities whose leaders are ichief accountant and subordinate public entity, owned in coordination or under authority

(4)*** counties (including Bucharest), Bucharest sectors municipalities, cities and municipalities.

9. Bibliografie


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