

## PARTICULARITIES REGARDING THE EXTERNAL FINANCIAL AUDIT IN THE PUBLIC SECTOR IN ROMANIA

CRISTINA-PETRINA TRINCU-DRĂGUȘIN

POSTDOCTORAL RESEARCHER, THE BUCHAREST UNIVERSITY OF ECONOMIC STUDIES

e-mail: cristina\_dragusin29@yahoo.com

### **Abstract**

*The paper falls within the category of those about the external financial audit in the public sector and is intended to be a theoretical approach, a qualitative type of research, through which we propose to bring to light and to the attention of the interested parties some of the particularities of this specific activity of the supreme audit institution in Romania. From a methodological point of view, we present, analyze and debate the main coordinates based on which the specific topic is addressed at national level. The scientific documentation is based on the informational support provided by the national legal framework and the Romanian specialty literature, including books and articles and also regulations, handbooks and guides of the Romanian Court of Accounts. The paper begins with an introduction in order to place us in the scientific context, continues with methodological details, delimitations regarding the concept of external financial audit in the public sector and its objectives, it approaches the synthesis reports, as object of the external public financial audit specific demarches, after which it focuses on the triptych formed by the audit team, the audited entity and the users of the external public financial audit reports. In the end, the conclusions on the addressed issue are presented.*

**Keywords:** Public external audit, financial audit, Court of Accounts, public entities, financial statements.

**JEL Classification:** H83, M42.

### **1. Introduction**

The external public audit has a particular importance in controlling the management of the public funds and the public patrimony, being an independent activity that contributes, as an essential part, to the process of accountability in spending public money, in combating abuses and corruption and, consequently, in improving the governance of the public services.

In our country, the independent function of external audit in the public sector is performed by the Court of Accounts, as supreme audit institution, by carrying out specific missions of financial audit, performance audit and compliance audit (control).

In this paper we will focus on the financial audit, which the external public auditors of the Court of Accounts perform at the level of public institutions, national companies, autonomous administrations, trading companies in which the state or an administrative-territorial unit owns, alone or together, whole or more than half of the share capital, proposing to highlight the specific features of this activity.

The scientific context in which we have chosen this topic of debate is characterized by insufficient approaches of the issue in the Romanian specialty literature. In another train of thoughts, although through the research undertaken so far some aspects have been highlighted, the approach of the particularities of the external public financial audit in Romania still requires numerous clarifications, completions and an in-depth debate through adaptation to the actuality.

### **2. Methodology**

Through this paper we intend to bring to light and to the attention of the interested parties some of the particularities of the external financial audit activity in the public sector in our country.

In order to reach the set objective, our investigative approach is constituted as a theoretical research, of qualitative type, through which we present, analyze and submit to debate the main coordinates based on which the specific topic is addressed at national level.

The scientific documentation is based on the informational support provided by the national legal framework and the Romanian specialty literature, including books and articles and also regulations, handbooks and guides of the Romanian Court of Accounts. Among the used tools there are: collecting and processing information, the analysis, the synthesis, the comparison and the deductive reasoning.

### **3. Delimitations Regarding the Concept of External Financial Audit in the Public Sector and Its Objectives**

In general, the external public financial audit is the audit carried out by the external public auditors of the Romanian Court of Accounts, starting from the summary reports of the entities in the public sector.

If we consider the legal framework, the financial audit is expressly defined in Chapter I, article 2, point c) of the Law on the organization and functioning of the Romanian Court of Accounts as “*the activity by which it is pursued if the financial statements are complete, real and in compliance with the laws and regulations in force, providing an opinion in this regard*”. [1]

Therefore, we observe from the beginning that, in the external public financial audit, the periodic summary reports of the audited entity have a central role, as documents of structured representation of its financial position and its financial performance, from the point of view of their primary objective of providing useful information to a wide range of users in order to substantiate their economic decisions.

As we showed in a previous paper (Trincu-Drăgușin, 2018, p. 195), the legal framework is supplemented by the Regulation regarding the organization and operation of the specific activities of the Romanian Court of Accounts (abbreviated RODAS), which offers, at point 5, a broader definition of the concept of financial audit, namely: “*the activity of pursuing if the financial statements are complete, real and in compliance with the laws and regulations in force and if the administration of the public and private patrimony of the state and of the administrative-territorial units and the execution of the audited entity’ budget of incomes and expenditures are in accordance with the purpose, the objectives and the attributions stipulated in the legislation by which the entity was established and if the principles of legality, regularity, economy, efficiency and effectiveness are respected, providing an opinion in this regard*”. [2] It is necessary to clarify that, within RODAS, the specific activity of financial audit is assigned a separate chapter, respectively Chapter III entitled “*Organization and carrying out the financial audit, drawing up the financial audit report and capitalizing on the findings included in it*”. [3]

Given the extended definition, we can issue the opinion that external financial audit in the public sector is more than just a financial audit. This aspect is also highlighted in the Financial Audit Handbook (The Romanian Court of Accounts, 2017, p. 5), where it is shown that this specific activity of external public audit focuses on determining whether the financial information of the entities that fall within the competence of the Romanian Court of Accounts is presented according to the applicable regulatory framework for financial reporting, emphasizing that the purpose of the financial audit in the public sector includes some specific objectives, in addition to those of an audit of the periodic summary reports prepared according to the financial reporting framework. [4]

In light of these specific objectives, the external public auditor/the audit team is called to express not only on the reality, fidelity and conformity of the audited summary reports with the regulations applicable to the field, but also on the: the administration of the public and private patrimony of the state and of the administrative-territorial units and the execution of the revenues and expenditures budgets of the audited entities by reference to the purpose, the objectives and the

attributions provided in the normative acts by which they were established; the execution accounts provided by law; the evaluation of the activity of internal managerial control; the observance of the principles of legality, regularity, economy, efficiency and effectiveness.

In summary, the aspects pursued by the external public auditors in the financial audit activity are those presented in Figure no. 1.

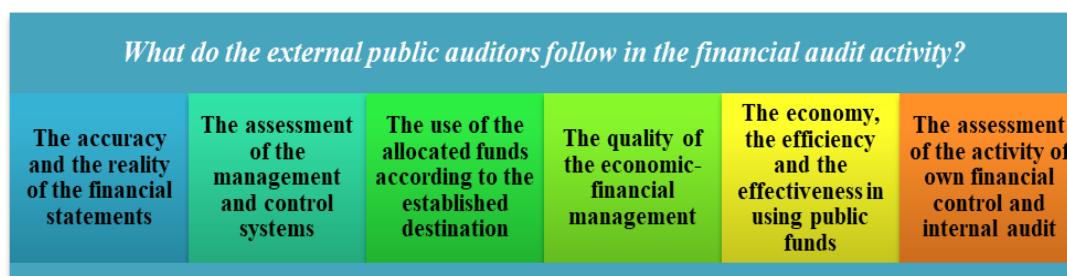


Figure no. 1 – The aspects pursued by the external public auditors in the financial audit activity  
Source: Projection after art. 250 from RODAS

At this stage, we can state the general objective of the external public financial audit, which is defined by two coordinates as it aims to obtain a reasonable assurance that:

a) the audited synthesis reports do not contain significant distortions as a result of some deviations or errors, allowing an opinion to be expressed regarding the extent to which they are prepared in accordance with the financial reporting framework applicable in Romania, they respect the principles of legality and regularity and offer a faithful picture of the financial position, the financial performance and the other information regarding the activity carried out by the entity;

b) the administration of the public and private patrimony of the state and of the administrative-territorial units and the execution of the budget of incomes and expenses of the audited entity are in accordance with the purpose, objectives and attributions provided in the normative acts by which it was established and respect the principles of legality, regularity, economy, efficiency and effectiveness.

From another perspective, Bostan (2011, p. 40), approaches the external financial audit at the public institutions by referring to the finality of this process, respectively the issuing of the audit opinion. According to him, the audit opinion is grounded on the audit report, which contains mainly findings with financial impact, findings on the results of the management and internal control systems' evaluation and also recommendations for remedying the deficiencies identified in order to improve the activities. [5]

In turn, Ispir (2008, p. 137) shows that the mandate of external financial audit of the Romanian Court of Accounts is not limited to the accounts of the public institutions led by main authorizing officers since the supreme audit institution is empowered to carry out such specific demarches also to the subordinated public institutions, led by secondary or tertiary authorizing officers, selectively, according to its own annual activity program. [6]

The financial audit missions are performed by the external public auditors in compliance with the own audit standards of the Romanian Court of Accounts, elaborated taking into account the generally accepted international audit standards of the International Organization of Supreme Audit Institutions (abbreviated INTOSAI).

#### 4. The Synthesis Reports, Object of the External Public Financial Audit

The periodic summary reports (the financial statements) ensure the financial communication between the entity and the stakeholders. The primary objective of these reports is to provide useful information to a wide range of users, which will serve as a basis for making efficient economic decisions.

As Domnișoru and Vinătoru (2009, p. 9) point out, the financial reports are "public statements of the management" by which the entity communicates financially with its universe, with the users of the financial statements: the present and the potential investors, the staff, the creditors, the suppliers, the customers and other debtors, the Government and its institutions and also the public. [7]

According to the national accounting rules, the periodic summary reports are official documents presenting the economic and financial situation of the entity and must provide a faithful picture of the financial position, the financial performance and the other information regarding the activity carried out.

Ștefănescu and others (2013, p. 209) show that the public entities must elaborate financial statements quarterly and annual and, at the same time, emphasize that the quarterly reports do not imply the accomplishment of all the closing works such as: the inventory, the inventory results recording, the delimitation of the expenses and the revenues over time. [8]

The summary reports submitted to the external public financial audit include six components and can be viewed in Figure no. 2.

<i>The summary reports submitted to the external public financial audit include:</i>					
<b>The balance sheet</b>	<b>The patrimonial result account</b>	<b>The cash-flow statement</b>	<b>The statement of changes in the assets/ capital structure</b>	<b>Annexes to the financial statements</b>	<b>The budget execution account</b>

Figure no. 2 – The summary reports submitted to the external public financial audit  
Source: Projection after art. 251 from RODAS

Also, the annual execution accounts on which the Court of Accounts performs the financial audit can be viewed in Figure no. 3.

<b>THE ANNUAL EXECUTION ACCOUNTS ON WHICH THE FINANCIAL AUDIT IS PERFORMED</b>		
<b>The general account for the execution of the state budget</b>	<b>The account for the execution of the state social insurance budget</b>	<b>The special funds execution accounts</b>
<b>The accounts for the execution of the local, counties, municipalities, cities and communes budgets</b>	<b>The State Treasury budget execution account</b>	<b>The accounts for the execution of the budgets of the autonomous public institutions</b>
<b>The accounts for the execution of the budget of the non-reimbursable external funds</b>	<b>The accounts for the execution of the budgets of public institutions financed entirely from own revenues</b>	<b>The general account of the state's public debt</b>
<b>The accounts for the execution of the budgets of the institutions financed wholly/partially from the state budget, the state social insurance budget, the local budgets, the budgets of the special funds</b>		<b>Other accounts of execution of some budgets provided by law</b>

Figure no. 3 – The annual execution accounts on which the financial audit is performed  
Source: Projection after art. 253 from RODAS

As official documents for presenting the entity's economic and financial situation, the summary reports are the starting point and the object of the external public financial audit, since by evaluating their content, the external public auditor/the audit team will issue, through the audit report, a useful conclusion for the stakeholders in substantiating their decisions.

## 5. The Triptych: Audit Team – Audited Entity – Users of the External Public Financial Audit Reports

From the point of view of the involved parties, the external public financial audit involves an assurance commitment based on the triptych formed by the audit team, the audited entity and the users of the audit reports regarding the information disseminated through the synthesis reports. Within this triptych:

- **the audit team** (or the external public auditor, as the case may be) represents the Romanian Court of Accounts, being the persons employed within it and delegated to carry out the audit mission on behalf of the supreme audit institution;
- **the audited entity** is the public institution, the national company, the autonomous administration or the trading company in which the state or an administrative-territorial unit owns, alone or together, whole or more than half of the share capital; in other words, the audited entity is part of the hierarchy of public sector entities responsible for managing public funds;
- **the users of the audit reports** regarding the information disseminated through the synthesis reports are: the Parliament, the principal authorizing officers of the audited entity, the deliberative authorities of the local public administration, the persons in charge of the governance or the citizens.

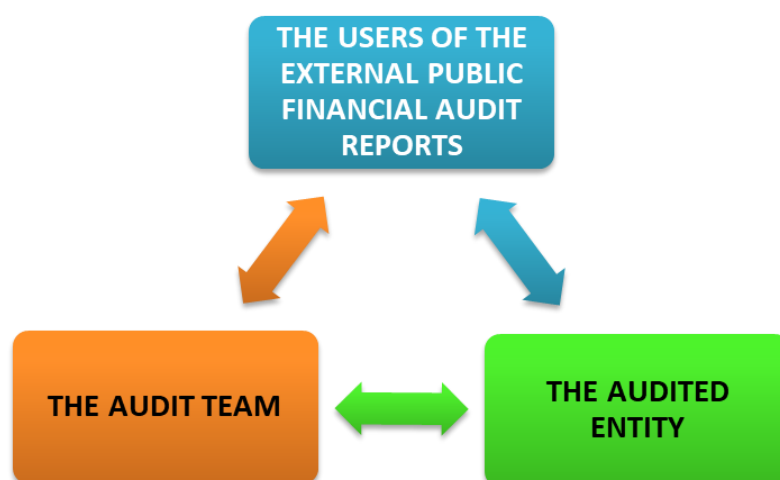


Figure no. 4 – The Triptych: Audit Team – Audited Entity – Users of the Audit Reports

Source: Adaptation after *The Financial Audit Handbook*, 2017 Edition, p. 11

## 6. Conclusions

This paper reviews a series of approaches regarding the external financial audit in the public sector in Romania. The research shows that, despite the undoubted importance of this specific activity of the Court of Accounts of Romania, the native literature is quite "poor" in terms of delimitations and considerations regarding the notion of external public financial audit, the concept being mainly addressed by reference to the normative framework. Along with the rules in force, the regulations and the handbooks of the supreme audit institution remain the main sources of information.

However, we consider that we could define the external financial audit in the public sector as the specific activity, carried out in compliance with the own standards of the supreme audit

institution at national level by the external public auditors within it, starting from the synthesis reports of the public entities, with the purpose of issuing an opinion (conclusion) that may increase the level of the users confidence in the audited financial statements.

The research has revealed that the external public financial audit is more than just a financial audit as it focuses on the synthesis reports of the public entities, in order to issue an opinion on their accuracy and reality, but it also pursues a number of other additional specific objectives, among which we mention: the evaluation of the management and internal control systems, the use of the funds according to their destination, the quality of the economic-financial management, the economy, the efficiency and the effectiveness in the use of the public funds, the evaluation of the activities of own preventive financial control and of internal audit.

As official documents for presenting the entity's economic and financial situation, the summary reports are the starting point and the object of the external public financial audit, since by evaluating their content, the external public auditor/the audit team will issue, through the audit report, a useful conclusion for the stakeholders in substantiating their decisions.

We have also highlighted that the external public financial audit involves an assurance commitment based on the triptych formed by the audit team, the audited entity and the users of the audit reports regarding the information disseminated through the synthesis reports.

## 7. Bibliography

- [1] The Law no. 94/1992 regarding the organization and functioning of the Romanian Court of Accounts, republished, subsequently amended and supplemented;
- [2] **Trincu-Drăgușin, C.P.**, Landmarks Regarding the External Public Audit in Romania, *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series*, Issue 1, 2018, 193-200;
- [3] The Regulation regarding the organization and operation of the specific activities of the Romanian Court of Accounts (RODAS), published in the Official Gazette of Romania, no. 547/24.07.2014, subsequently amended and supplemented;
- [4] The Romanian Court of Accounts, *The Financial Audit Handbook*, 2017 Edition;
- [5] **Bostan, I.**, Metamorfoze instituționale privind exercitarea auditului public extern în România. *Economie teoretică și aplicată*, XVIII, 12(565), 2011, 32-41;
- [6] **Ispir, O.**, *Audiul extern în domeniul public*, Editura Economică, București, 2008;
- [7] **Domnișoru, S., Vinătoru, S.**, *Audit și comunicare financiară*, Tipografia Universității din Craiova, Craiova, 2009;
- [8] **Ștefănescu, A., Dumitru, M., Glăvan, M.E., Pitulice, I.C.**, *Contabilitate publică*, Editura ASE, București, 2013.