

Internal Audit and its Role in the Decision-Making System

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Abstract: *The decision-making system of any institution presents a great complexity, incorporating a wide variety of decisions and allowing an appreciable diversity of approaches. In recent years, there is a tendency to increase its functionality on the basis of innovative approaches, with a pronounced innovation character, in which the priority is to ensure competitive performances, especially in public institutions. The decision, a primary component of the decision-making system, is an essential element of the management, being, its specific instrument of expression for whose basis information is needed both from the internal and external environment. The decision-making process, specific to more complex decisions, involves a considerable consumption of time, which can be on the order of hours, days or even weeks, during which a certain amount of information is collected and analyzed, human contacts are established and more people are consulted in order to shape the decision-making situation. Given the variety of decision-making situations and the decision-making processes involved, which are extremely heterogeneous in terms of constructive and functional parameters, a more analytical approach to the main elements involved, which represents specialized activity for internal audit departments, is required. Thus, as it represents a carefully planned, procedural activity, well defined from the point of view of the techniques and working tools, applicable in all fields of activity, the internal audit plays an extremely important role in the decision-making system, not only because of the findings, but and by the quality and efficiency of the recommendations.*

Keywords: *decision-making system, internal audit, decisions, findings, recommendations*

Introduction

The introduction of internal audit as activity of public entities, based on the provisions of Government Ordinance no. 119/1999 regarding the internal audit and the preventive financial control, was followed by debates and clarifications, reorganizations of the internal control and its separation from audit, the latter being regulated by Law 672/2003, regarding the public internal audit, republished, with the modifications and subsequent additions.

An official definition of the internal audit was adopted by the Institute of International Auditors (IIA) as follows: “Internal audit is an independent activity of objective assurance and counseling, designed to add value and lead to the improvement of the organization's activities, which it supports in meeting its objectives. It helps the organization in achieving its objectives through a systematic and disciplined approach in the evaluation and improvement of the efficiency of risk management, control and governance processes” [1].

According to Law no. 672/2002 regarding the public internal audit, republished, as subsequently amended and supplemented, the internal public audit is a functionally independent and objective, insurance and advisory activity, designed to add value and improve the activities of the public entity; helps the public entity to achieve its objectives, through a systematic and methodical approach, evaluates and improves the efficiency and effectiveness of risk management, control and governance processes. [2]

1. The Role and Objectives of the Internal Audit

The general objective of the internal public audit is to improve the management of the public institution and can be achieved mainly through: a) insurance missions; b) advisory missions, c) evaluation missions of the internal public audit activity; d) follow-up missions for the implementation of the recommendations formulated in the previous internal public audit reports. From the point of view of organization and exercise, the internal public audit is a component of the system of internal managerial control, being organized distinctly, in the direct subordination of the highest hierarchical level, that is to say, the leader of the public institution, and which, by its attributions, does not it must be involved in some way in carrying out the activities that it can audit. Thus, the internal auditors did not have to audit activities that were responsible in the past. The objectivity of an auditor is considered to be posted when he / she perform a mission to ensure an activity for which he / she was responsible during the previous year. [3, 16]

Starting from the premise that the audit missions must be carried out by persons with a high degree of professional training, we can consider that, the internal public auditors, possess varied knowledge from various fields of activity (economic, legal, management, IT, technical, administrative), which allows them not only to fulfill the duties related to the function, but also to recommend the adoption, respectively of implementing viable solutions, adaptable to the institutional specific, meant to ensure the conformity of all activities in relation to the legislation in force and at the same time to add value to the managerial act. In this respect, the head of the internal public audit service is appointed by the head of the public institution with the opinion of the internal public¹ audit structure of the hierarchically superior public entity. The appointment and dismissal of the internal auditors is carried out by the head of the public institution with the opinion of the internal audit department of the hierarchically superior public entity.

The role and objectives of the internal audit, the statute of the internal audit structure, the principles applicable to it, the methodology and rules of conduct applicable to the internal audit activity and to the internal auditors are contained in the "Internal Audit Charter".

The scope of activity of the internal public audit activity comprises: a) financial activities or with financial implications, b) public and private heritage management; c) rental, concession, pledge and sale of goods; d) formation of public revenues; e) committing, liquidating, ordering and paying the budgetary expenses; f) the management, control system, including the accounting and information systems.

The internal public audit activity is carried out based on a planning. The planning of internal public audit missions is based on risk assessment, in order to determine the priorities of the internal audit activity, in accordance with the objectives of the public institution.

The risk is the uncertainty that the production of an event will affect the achievement of the objectives. The goals of an organization are the goals that it aims to achieve.

Depending on the nature of the activities carried out within the entities, the risks are: organizational, legislative, financial, operational, risks related to the environment and the ones regarding the security of information.

In defining the types of public audit within it are shown:

- a) the system audit represents an assessment of the depth of the internal management and control systems, in order to determine whether this functions economically, effectively and efficiently, and to identify the problems and how to identify them.

¹ Public entities include the public authority, the public institution, the national company / company, the autonomous management, the commercial company in which the state or an administrative-territorial unit is a majority shareholder and has legal personality, as well as the entity financed in proportion of over 50% of public funds.

- b) the audit of the performance examines whether the criteria established for the implementation of the objectives and tasks of the public entity are correct for the evaluation of the results and assesses whether the results are in accordance with the objective;
- c) the audit of the regularities represents the examination of the actions on the financial effects of the public funds or of the public patrimony, under the aspect of respecting the set of principles, procedural and methodological rules that are applicable to them.

Although at present most of the internal public audit missions are concentrated in the area of insurance / compliance, in the percentage of 70-80% of the total missions performed, it is desired to limit them to a level of 30-40%, for areas such as the legal and financially, and for the others the planning of system missions, respectively performance.

In order to argue the stated ones, in this case, why the internal public audit has a very important role for the management of the public institution, we start from the structure of the institution that we break down to the position level, to which we assign tasks and responsibilities, we establish the purpose, the objectives and the activities that lead to the achievement of these objectives, ensuring finally that they converge with the mission of the institution, namely, to provide the citizen with quality services, to protect them, to ensure access to information of public utility and support in problem solving. Analyzing periodically, every three years, through rotation, how these requirements are met, it is not only a form of insurance for the management of the institution, but more, it presents to it the evolution over time, increasing the capacity to adapt to new ones identified risks that can create dysfunctions, finally coming up with recommendations regarding the efficiency of activities or risk management. By conducting a system audit, auditors focus on the risks that may affect the achievement of objectives and how these risks are managed, as well as on the controls existing within the organization [4, 85]. The accomplishment of a mission of public audit within the system within a public institution supposes to go through a general methodology, structured for the following stages:

- preparation of the internal public audit mission, which consists in initiating the internal audit, during which time the information is collected and processed, the risks analyzed, the program of the internal public audit mission is elaborated;
- the intervention on the spot, during which the audit evidence is collected and analyzed, the documents are reviewed and the audit file is prepared;
- reporting the internal public audit activity, during which the draft audit report is prepared, the project of the audited institution is transmitted, and the internal public audit report is prepared;

The follow-up of the recommendations consists in the elaboration of the action plan and the follow-up sheet of the implementation of the recommendations.

2. Risk Assessment to Prioritize Auditing

The most important stage of any internal public audit mission is the preparation phase of the mission, at which point the risks are evaluated. The risk assessment procedure involves identifying the activities and the risks associated with them, establishing the risk analysis criteria, establishing the total score and ranking the risks.

The risks are assessed by evaluating the possibility of production and by assessing the effect on reaching the institution's objectives. Criteria for assessing the probability of producing risks can be: changes in the normative framework, volume, complexity and periodicity of operations, training and professional experience of the personnel, the quality and quantity of the technical means that are provided to it, the possible risks from previous periods. In order to assess the impact of the risks, the quality of the products and services offered, the loss of assets, the recovery of activities, the operating costs, the image of the public institution, the budget allocated for the activity can be considered.

The probability and impact of the risks are expressed on a value scale comprising three levels as follows:

- Probability of risk occurrence: low probability (1), medium probability (2) and high probability (3).

- Risk impact: low impact (1), moderate impact (2) and high impact (3).

The determination of the total risk score is determined using the following formula:

$$PT = P \times I$$

PT = total risk score

P = probability

I = impact

Based on the total risk score, the risks are evaluated and ranked. The hierarchy of risks implies the division of activities into activities with low, medium and high risk, as follows: for PT = 1 or 2, the risk is small; for PT = 3 or 4, the risk is medium; for PT = 6 or 9, the risk is high.

High (3)	Probability	3	6	9
Medium (2)		2	4	6
Low (1)		1	2	3
		Impact		
		Low (1)	Moderate (2)	High (3)

From the analysis performed, the activities for which medium and high risks were identified will be selected in the audit. For these, each step or step taken in the activity undertaken, as well as the final result, the proposed plan of measures for an efficient management of the identified risks is followed.

From this point of view itself, the audit is an essential component for the management of the institution because it not only proposes a series of recommendations for limiting the effects of the existing risks, but also because it identifies new risks, quantifies them and establishes through the forecast the probability of manifestation and the impact of their production. At the same time, we must appreciate the fact that, with each internal public audit mission, by completing the last step, namely, the preparation, approval and communication of the Report, the management of the institution benefits from an overview, an x-ray of all the activities carried out, during the audited period and, as the case may be, of recommendations designed to add value to the managerial act.

Conclusions

Currently, public institutions are constantly confronted with the need to improve their activities, as well as the need to respect the principles of sound financial management.

Through the recommendations made by the internal auditors within the assurance missions the internal audit activity contributes to adding value within the public entities, contributes to the process of implementing the internal control, and helps the public entity to reach its objectives.

The activity of internal public audit contributes to the process of implementing risk management, to improving the internal control system, to improving the management and decision-making system which is carried out through informal counseling and counseling missions.

The internal audit function assures the head of the public entity that the activities carried out by the public entity are in accordance with the applicable legislative framework, thus contributing to the achievement of the objectives of the public entity.

References

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