

THE ROLE OF SUPREME AUDIT INSTITUTIONS IN THE EFFICIENT MANAGEMENT OF BUDGET EXPENSES

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The Supreme Audit Institutions (SAIs) perform the external audit on public entities and are designed to closely monitor the performance management of the financial resources in the public sector, as well as the state public and private patrimony management. In order to provide a fair and unbiased monitoring report, the Court of Accounts or the Supreme Audit Institutions, as they appear in the specialized literature, must be independent politically and also they must put an obstacle in the path of clientism-based group interests, both political and economic.

The Supreme Audit Institutions or The Court of Accounts, in case of our country, should always concentrate on aspects such as „value for money”, as well as on efficiency and effectiveness in terms of maximal cost-effectiveness, because state resources are limited compared to its needs and to the needs of the interested parties outside the system

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The word “audit” derives from the Latin verb *audire*, which means “to listen to”. Starting from this primary sense, it was modified in time, thus getting to the meaning of audition, control in English and French. As practice, we can find it even in the earliest of times. Around 1559, Queen Elisabeth the First imposed formal attributions for auditing payments to the royal treasury. Thus, if we assimilate “royal treasury” with the modern “state budget”, we can say that this noble profession dates back from the XVth century. In 1866, the National Audit Law regulates the public audit in Great Britain. The law was amended and completed in 1921 and 1983, when the right of the Controller and Auditor General to carry out the performance audit came into force. The British National Audit Office’s motto is: „Let’s help the nation spend wisely!” The objectives in view refer to the cost-effectiveness and the efficiency of using public money, as well as to the program audit, which includes determining the degree in which the expected results and benefits are reached, or whether the entity has observed the main laws and regulations concerning the respective programs.

The term of audit in the extended sense was made popular by means of the Anglo-Saxon accounting expertise practices all over Europe and was assimilated by many countries in the 1960’s.

In Romania, it has been adopted along with the alignment of the national accounting regulations to the international and European standards and norms. The objective of the audit is generally the enhancement of economic, accounting or any other type of information. The audit is manifested in almost all the areas of the economic and social life, such as quality, management, etc.

We can say that the performance management of the financial resources in the public sector, as well as the state public and private patrimony management represents the most evolved form of external audit, to which the Supreme Audit Institutions in all the Western countries and not only tend to. As it is commonly known, the financial resource of a state is perhaps the only limited resource closely watched by all the contributors. Therefore, the analysis of the management of this resource is performed both by specialists and by dilettantes whose opinions are easily made public, even if they are not properly informed and negatively affect the resource's manager in most cases. For this reason, but not exclusively, the performance management of the financial resources in the public sector, as well as the state public and private patrimony management is vital for the provision of beneficiaries with accurate and certified information.

The internal control together with the evaluation and the audit consist of processes and mechanisms designed to ensure that fact that the budget planning and the use of public resources are made according to the law, observe the strategy objectives established by the government and the Parliament and are connected to the real world of operations and programs. In the absence of such mechanisms, the political decisions would risk being based on distorted information and to be ignored by the relevant operative organization, while the resources would risk being poorly managed. An important function of the audit in the public sector is to provide the decision-making boards with regular and permanent guarantees as to the quality of reports referring to expenses and that way the assets and bounds under public control are managed.

Public institutions are complex entities with a specific type of management and of decision-making process both at the central and at the local level. This type of institution always functions in an environment affected by powerful political pressure, both in its daily activity and especially during the electoral campaigns or political changes; it is also submitted to changes because of the political pressure. We must not ignore the fact that the management of such public entities is permanently evaluated and scrutinized and often criticized its beneficiaries and by the groups of interests, among which the media, the non-governmental, political or economic organizations, etc.

In the public sector, the audit generally and the performance audit specifically stands for an independent evaluation of the extent to which an activity, program or institution functions efficiently and effectively, while observing the principle of cost-effectiveness.

Performance in public institutions, as well as in the entire public sector, *represents only a relative notion*, whose measurement can be carried out in various ways⁵⁹¹.

The managers, either active or not from a political point of view, holding the top position in public institutions must be aware of the need to implement performance measurement systems (PMS). The existence of these systems can influence the management processes, with respect to the management decision in all the aspects involved.

The existence, respectively the implementation, application and usage of the performance measurement systems influence the management elements, such as:

- The improvement of budgetary process, respectively of the relationship between the existent resources and the obtained results;
- The functioning of the public institution or entity within the parameters of efficiency, effectiveness and quality of services while observing the principle of cost-effectiveness, the motivation of those involved in the activity of the entity, the staff;
- In order to increase the degree of conformity of the activity without affecting or harming the contributor, the improvement of their activity, as well as of their performance by further education are carried on at European standards;

591 OECD, 1994, Performance management in government: performance measurement and results oriented Management, Paris, PUMA/Occasional/OSCE

-The continual improvement of the management control mechanisms, as well as the permanent update of the evaluation standards for all the structures within the entity.

It is worth mentioning the fact that the decisive role in implementing and functioning of the performance measurement systems can be completely attributed to the managers involved in the activity of the public entity, but the support for its application, as well as the provision of feedback represent matters of the competence of auditors, either internal or external.

Although there is a common opinion according to which the operational audit refers to efficiency and effectiveness, using this term has stirred and is still stirring much controversy. In order to describe the control of efficiency and effectiveness of public entities, the preferred term by most people is manager audit or management audit, while the term of operational audit is ignored.

These persons usually opt for the definition of the operational audit in its extended sense, including the evaluation of the internal control mechanisms as part of an auditing process. Others do not agree that there is a difference between the terms “management audit”, “operational audit” and “manager audit”.⁵⁹² Quite a few prominent specialists prefer the extended sense of the notion of operational audit, if we consider the condition that the aim of the test is determining the efficiency and effectiveness of each component of the public institution.

The management audit tests the decisional system of the organization, so that it can “mainly provide information on the way in which the audited entity is managed on basis of the principles of cost-effectiveness, efficiency and effectiveness”⁵⁹³.

Pollitt C. mentions in his work, “Performance Audit in Western Europe” the four possible roles that a supreme audit institution can play:

-*Public accountant*, - he draws up reports designed to strengthen the responsibility and transparency of public institutions;

-*Management consultant*, - he offers assistance to public institutions;

-*Scientific or research organization*, - they create and disseminate information on the functioning of programs and projects;

-*Judge and magistrate*, - they decide respectively on the legality of the public institutions' activities and on the degree of observance of the legal procedures.⁵⁹⁴

In conformity with the law, in our country, public institutions and organizations have structured internal audit departments. From this perspective, testing the effectiveness and efficiency of the internal control mechanisms by an internal auditor is part of the operational audit only if its objective is to help the public institution or organization manage its activity more efficiently. The major problem is that the above-mentioned departments are only formally functioning within these entities, both at the central and the local level.

The main factors that lead to this type of „formalism” of the audit departments are mostly subjective. Nevertheless, they impede on the consolidation of this activity which is properly considered a valuable resource in increasing the performance in public organization management decision process. An example of such subjective factor is the totally distorted manager perception of the necessity of an audit or of an auditor. The auditors are considered as mere „controllers”, whose job is to check up their decisions and stop the management process. Thus, the confusion between control and audit is perpetuated, whatever its form. Another subjective factor is the lack of management support, but also the incapacity of auditors to impose themselves and to make themselves indispensable to a certain extent in the process of fundamenting management decisions, especially at the local level, where the influences, both political and economic, are obvious. Enumerating such factors can continue, a factor at least as important as the two previous ones being the severe lack of financial resources necessary to properly carry out this activity, in

592 Arens/Loebbecke – 2003, « Audit – an Integrated Approach », the ARC Publishing House from Chişinău p. 911

593 Bogdan, A.M., Financial Audit in the Conditions of the Alignment to the International Accounting Standards. Possibilities of Improvement <http://www.biblioteca.ase.ro/downres.php?tc=2393> pag.43.

594 Pollitt C. - Performance Audit in Western Europe, 2003, p.160.

an independent way that can trigger other factors, such as the lack of specialists in this field at the level of state structures, mostly because of low wages compared to the professional formation and expertise of the auditors, as well as to the excessive volume of work and responsibility. Taking into account all these, we have intentionally left for the end one of the most important factors, which originates from the previous one, that is the poor professional skills of auditors presently functioning in the state structures.

Changing these aspects cannot come from the managers, as it is difficult to change people's perception of what an audit means. Still, it can come as a political decision, stipulating that all the managers of public institutions consult the audit department when making a decision, while imposing that the whole process should be concluded only after a solid information.

Another suggestion of changing this misinterpretation can come from the Supreme Audit Institutions, respectively from the Court of Accounts, which are the institutions that perform the external audit on public entities and are designed to closely monitor the performance management of the financial resources in the public sector, as well as the state public and private patrimony management. In order to provide a fair and unbiased monitoring report, the Court of Accounts or the Supreme Audit Institutions, as they appear in the specialized literature, must be independent politically and also they must put an obstacle in the path of clientism-based group interests, both political and economic. They must be able to make a „cool-headed” analysis of the performance management of the financial resources in the public sector, as well as the state public and private patrimony management.

The Supreme Audit Institutions or The Court of Accounts, in case of our country, should always concentrate on aspects such as „value for money”, as well as on efficiency and effectiveness in terms of maximal cost-effectiveness, because state resources are limited compared to its needs and to the needs of the interested parties outside the system.

The external audit performed by the Supreme Audit Institutions can be vital for the management of government finances. It must cover, if possible, all the financial operations of the public authorities, especially those included in the budget. The external audit should mainly aim at certifying the accuracy of reports concerning budget execution and other financial data, as well as concerning public funds. The Supreme Audit Institutions should first identify the causes generating „loss” and „inefficiency”, starting from their effects, and then make recommendations in order to eliminate them and to consolidate the systems and operations involved.

In order to implement a healthy reform process in this respect, we should include among the priority areas of the external audit reformation the decision to separate the Supreme Court of Accounts from the political influence, as well as to ensure its independent functioning as a government executive branch, by providing appropriate financing and equipment, well-trained personnel in the field of auditing techniques and implementation of analyses and audit based on the 3 E's (efficiency, effectiveness, cost-effectiveness) and on the „value for money” audit type. Last, but not least, we must mention the fact that personal responsibility and special imperative laws, stipulating much more severe punishment for public clerks in comparison with a simple employee for a similar crime are meant to strengthen the reformation process and to consolidate the position of the supreme audit institution, especially in countries experiencing a never-ending transition. We must understand that the poor management of both the financial resources from the public sector, and the public and private state patrimony can be interpreted as undermining the economy, if we take into account the fact that all budget corrections are based on increasing taxes and fees, which are borne by the contributor, both individual persons and companies. This in fact leads sooner or later to the strangulation of the macroeconomy in favor of a clientism-based economy.

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