

**COURT OF AUDITORS – THE ASSESSMENT OF INTERNAL CONTROL  
SYSTEM IN THE PUBLIC SECTOR IN ROMANIA.  
CASE STUDY BIHOR COUNTY**

**Gherai Dana Simona**

*University of Oradea, Faculty of Economics*

**Tara Ioan Gheorge**

*University of Oradea, Faculty of Economics*

*Since resources in the public sector generally represent public money and their use in the public interest generally requires special care, the significance of safeguarding resources in the public sector needs to be underlined. The public romanian sector is characterized by an descendant trend of public resources, limitation of expenses and new risks horizons, this is way the ability to anticipate threats or opportunities is the most important objective of internal control sistem. The internal control is a dynamic process which continuously adjusts to the changes faced by an entity, with the direct involvement of the management and staff at all levels of the organization, to identify and address risks and to resonably ensure that the entities' mission and the general objectives have been fulfilled. Regardless of the nature or the size of entities, the efforts given by the application of internal control are much related to the implementation of good practices, monitoring, evaluation, adaptation and updating of their implementation.*

*Which is the level and the current state of the system of internal control in the Romanian system? Do we understand and respect the notion of Public Internal Financial Control? To all these questions we try to answer in this paper, primarily through the presentation of general principles and objectives of the internal control and analysis of the report to the Bihor Board of Auditors for the year 2010. As a result of the study, a number of flaws and errors revealed, both of organization and coordination, in order to be able tooffer some measures of solving the developed.*

*Keywords: external public audit, internal control, public sector, risk.*

*JEL: M42, M48.*

### **Internal control sistem**

Making a brief introduction into the financial scandals we observe, during '90s, a series of financial scandals which have revealed a behavior without ethics and transparency of those who led large companies. Unfortunately, the history is repeated from certain points of view and even though, during the 2000s, enters into discussion the concept of corporate governance, which are the mechanisms by which a company must be led and controlled, we are dealing with one of the biggest financial and economic crises caused by the global impact that some organizations' business had had.

These series of events have not bypassed the public sector which owns a significant portion of the economy and drew the attention upon managers and professionals and upon the professionalism with which it is run and regulated the economic activity.

The definition for internal control given by the INTOSAI GOV 9100: is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

Internal controls in the public sector have a strong impact on the credibility of the Government and of the operations carried out. Internal control standards provides a mechanism by which you can obtain reasonable assurance that assets are safeguarded, financial reporting is reliable and financial transactions comply with the ethical aspect.

In the legislation of Romania, internal control is defined as all forms of control exercised at the level of the public entity, including internal audit, established by the managers in accordance with its objectives and legal regulations, to ensure the management of public funds economically, efficient and effective; it also includes the organizational structures, methods and procedures.

The internal control in public sector organizations must be understood in the light of their specific features, such as:

- achievement of social or political objectives;
- how to use the public funds;
- the importance of the budgetary process;
- public sector managers responsible for the implementation of the internal control system.

Internal control is a dynamic process that is continuously adapting to the changes an organisation is facing, is not one event or circumstance, but a series of actions that permeate an entity's activities. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.

The internal control system is intertwined with an entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organisation.

According to the *Guidelines for Internal Control Standards for the Public Sector* (INTOSAI GOV 9100), internal control consists of five interrelated components, namely:

Control environment,  
Risk assessment,  
Control activities,  
Information and Communication,  
Monitoring.

The *control environment* is the foundation for the entire internal control system. It provides the discipline and structure as well as the climate which influences the overall quality of internal control. It has overall influences on how strategy and objectives are established, and control activities are structured.

Having set clear objectives and established an effective control environment, an *assessment of the risks* facing the entity as it seeks to achieve its mission and objectives provides the basis for developing an appropriate response to risk.

The major strategy for mitigating risk is through *internal control activities*. Control activities can be preventive and/or detective. Corrective actions are a necessary complement to internal control activities in order to achieve the objectives. Control activities and corrective actions should provide value for money. Their cost should not exceed the benefit resulting from them (cost effectiveness).

Effective *information and communication* is vital for an entity to run and control its operations. Entity management needs access to relevant, complete, reliable, correct and timely communication related to internal as achieve its objectives.

Finally, since internal control is a dynamic process that has to be adapted continuously to the risks and changes an organisation faces, *monitoring* of the internal control system is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

These components define a recommended approach for internal control in government and provide a basis against which internal control can be evaluated. These components apply to all aspects of an organisation's operation

Internal control is designed to provide reasonable assurance regarding the achievement of the General objectives of the institution. That is why goals clearly set out by the heads of the appropriate entity of the budget and planning, is a *sine qua non* condition for an effective internal control.

Achievement requires the identification, knowledge and taking risks. As with INTOSAI GOV 9130, the risk management purpose entity is to allow the management of an entity to identify the element of uncertainty on achieving the established targets and the risk associated with it, i.e. in terms used in the public sector, to provide more efficient, economic and effective services, and to take account of the values, such as equity and justice. The risk may be regarded negatively, uncertainty, obstacle or threat, or in the positive sense of opportunity.

### ***Research methodology***

Our research has as objective to understand the internal control sistem in the public sector entities in Romania, in respect of the current economic situation and international directions on the field. The basis of the study consists in a synthesis of the ideas published on the topic, the regulations issued by the national and international accounting regulators. We have try to analyse the proces of internal control and we have used a fundamental research method identifying in the public sector from Bihor county the entities that have non-implemented internal control system or have not organised internal audit.

### ***Chamber of Accounts in the Bihor County***

In 2009, at a conference organized and hosted by the European Commission in Brussels, the main debated problem was about the Public Internal Financial Control (PIFC), stressing that after accession many of the 12 new EU member countries, namely the harmonization of their central units, did not continue to develop their PIFC, although they were compelled. Therefore, the European Commission has recommended that the supreme audit institutions should intervene promptly by assessing the progress of implementation in their own countries of PIFC and to leverage the ongoing development and with greater efficiency.

So in accordance with the schedule approved by the Plenum of the Court of Auditors of Romania for 2011, TheBihor Board of Auditors was carrying out the statutory audit competency to a total of 366 local subordination of entities managed to plan and to realize territorial administrative units at the local level, a number of 41 actions: 36 actions on financial audit of accounts run concluded in 2010 and 5 control shares, which represents a degree of coverage of 11,20% of total subordination to local entities.

Organizational, economic and administrative structures, subject to check are:

<b>Verified entities at the level of administrative territorial units of territorial administrative</b>	<b>Territorial administrative Units audited in the Bihor County</b>	<b>Existing entities</b>	<b>Audited entities</b>	<b>%</b>
<b>1. Officers by level administrative-territorial units, of which:</b>		<b>347</b>	<b>40</b>	<b>11.53</b>
<b>1.1. Principal Officers, of which:</b>		102	37	36.27
Conunty Councils	T.A.U.C. Bihor,	1	1	100

Municipalities	T.A.U.M. Marghita, T.A.U.M. Oradea	4	2	50.
Towns	T.A.U.T. Ştei, T.A.U.T. Vaşcău,	6	2	33.33
Common	T.A.U.C.Abrămuţ, Avram Iancu, Bunteşti, Cărpinet, Cociuba Mare, Copăcel, Drăgăneşti, Drăgeşti, Finiş, Hidişelu de Sus, Holod, Husasău de Tinca, Ineu, Lunca, Măgeşti, Nojorid, Olcea, Paleu, Pomezou, Rieni, Roşiori, Săcădat, Sălacea, Sânicolau Român,Sânmartin, Suplacu de Barcău, Şuncuiuş, Târcaia, Toboliu, Țețchea, Uileacu de Beiuş, Vadu Crişului.	91	32	40.66
<b>1.2. Secondary Officers Credits</b>		-	-	
<b>1.3. Terțiar Officers Credit</b>	Administration Directorate General of Oradea, social assistance and child protection, the State Theatre Bihor Oradea	245	3	1.22
<b>2. Autonomous Local Kings</b>		7	-	
3. Companies of local interest	Autonomous Oradea Local Transport	12	1	8.33
<b>TOTAL</b>		<b>366</b>	<b>41</b>	<b>11.2</b>

Source: Local public finance report for the year 2010, the Bihor county.

In the purpose of objective financial audit resulted in the general expression of opinion of the audit was to obtain assurance on the management of the assets of the entity and on the drawing up in accordance with the financial reporting framework practicable in Romania of the financial statements.

In the context of the verification activity, in order to achieve the general objective of the statutory audit, the external public auditors had in view the manner of organization, implementation and maintenance of management systems and internal control (including internal audit) to entities audited.

Within the framework of the activities of the Board of Auditors have rated Bihor control systems and internal audit, and the result of analysis performed, the irregularities noted deficiencies have been found to all the entities audited with a crash that caused, particularly, the existing of disfunctionalities in the organization and internal control.

So with regard to these deviations from the normative acts in force we noted:

**-non-implementation and failure in full forms of internal control system** in a number of 20 entities through the fact that policies and procedures for protecting against fraud losses of entities, irregularities and errors for administering public funds economic, efficient and effective. Also, lack of their own internal control rules caused the assessment by the auditors of a high risk control and granting of 14 qualifying satisfactory and unsatisfactory.

**- failure of preventive financial control** to a number of audited entities 15 on all operations that affect public funds and assets of public entities. what lead to the impossibility of identifying the projects of operations which do not meet the conditions for legality and regularity and its performance on the basis of administrative documents are incomplete without the speedy "general framework of operations subject to proper preventive financial control" and

\documentary Circuit controlled preventive financial\". There have been a number of cases in which even though it was organized preventive financial control, it has not achieved the goal that has not been ensured a systematic check of operations subject to preventive financial control from the point of view of compliance with all legal provisions that were applicable, in effect on the date of the operations.

There have been recorded situations in which preventive financial control has not identified the projects operations which do not meet the conditions for legality and regularity and/or, where appropriate, employment in the destination budget appropriations and commitment and whose conduct has harmed the public heritage and/or public funds.

- **non-organization of the internal audit** by most of the territorial administrative units checked (in particular the commune) in accordance with the provisions of art. 9 of 672/2002, although they ran an annual budget of over 100,000 euros, so not eligible to be classified in the category of small public institutions as defined in the Law 672/2002 and, therefore, internal audit cannot be ensured by the engine's internal public audit of the Ministry of Public Finances.

Following the checks carried out at four officers tertiary credits it was found that they do not have organized the work of internal audit, being carried out by the internal audit compartimentele organized at the level of senior officers to whom loans are subordinate to the U.A.T. and U.A.T. County Bihor Oradea. Due to the low number of these compartments are Auditors, but unable to carry out regular tasks, in order to identify significant risks and deficiencies may affect the objectives, the activities and resources of the establishment, to provide the security of a real images and legal heritage.

## **Conclusions**

Not being organized internal audit, management institutions are not offered on the proper management of public revenue and expenditure, there is no possibility to improve their activities and are not supported in fulfilling their objectives through a systematic and methodical approach to evaluate and improve the efficiency and effectiveness of the management system based on risk management, control and governance processes.

Framework of analysis and the Reports on the internal audit programmes for 2010, drawn up by the authorising officers who had organized the internal audit, it was found that in general this activity was carried out in outsourced system, which proved to be largely ineffective.

Reports produced in these cases are of a purely formal audits being more oriented towards a fund manager controls than towards a genuine internal audit to serve both entities in order to achieve an efficient management and the Board of Auditors as a source of information on the audits carried out.

In conclusion, in order to reduce the risk of new errors in the work of the units it is necessary to implement the system of internal control, management and development of clear procedures for all activities carried out within the framework of the entities and the identification and management of risks.

In view of the small number of staff, entities could opt for similar cooperation with other entities, to organize and exercise-control activities, audit, inspection, on the principles of efficiency, effectiveness and lower in furtherance of the duties established by law and local public administration authorities.

One of the main causes of the Organization and the exercise of preventive financial control, lacking is the lack of specialized personnel and poor skill of the latter, in particular in the case of the municipal territorial administrative units, which resulted in non-compliance with the provisions of law No. 119/1999 concerning internal control and preventive financial control, in terms of separation of preventive control of those driving the bookkeeping or participate in the performance of economic and financial operations.

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