

FINANCIAL AUDIT IN PUBLIC INSTITUTIONS

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Abstract. The paper is based on the analysis of the role and needs of the audit in the financial analysis of entities by addressing internal control and accounting reform.

We will try to argue the inseparable link between accounting and control, mutual influence between the accounting system and internal control, and the relationship between them. Transparency policies and accounting policies used are guaranteed by internal control through internal audit, external audit, and financial audit, and the interest of investors is centered and concerned with the degree of internal control over the management of financial resources. The place and role of the audit to manage risks and provide recommendations on internal financial control.

How users of financial information from entity development and investment opportunities depend to a large extent on the credibility of financial statements. Emphasis is placed on the assessment of the audit or the management of internal control in the management of financial resources, which involves the assessment of the internal control, including the quality of the accounting information provided in the public financial statements.

Keywords: financial, public, audit, entity, manager, control.

JEL classification: M42, G34, H83.

Introduction

Today, through the reforms introduced by the European directives, it is required that each entity implements public internal financial control / corporate governance and manage resources as transparently and efficiently as possible and at the state level to provide external assurance for third parties or the investors led to the development of the audit function through regulations both at national and international level.

Following the study on the emergence and evolution of the audit in the Republic of Moldova reveals that it is a corresponding concept, a new function for the entities in the country, with singular particularities, which can not be confused with others, given that the managers from different domains seeks to assure the management of resources and the organization of its activities, and the place and role of the audit depending on professionalism, knowledge applied according to standards, general rules, methodological norms, and the types of documentation and evidence obtained developed and applied in carrying out the audit missions could provide the degree of assurance and the most concise recommendations.

1. Role of the audit in the assessment of internal financial control

The audit has more than a millennium of age, but terms have been used at different times, such as inspection, control, revision, verification, accounting expertise, supervision, etc. Each of these terms implies:

- comparing the real situation with the situation that should exist;
- analysis of deviations and risks;
- proposing or recommending measures aimed at contributing to the objectives of the entity.

Until the beginning of the 20th century, the work of external and internal auditors was characterized by the fact that: [5]

1. tracked, first, the detection of frauds and errors;
2. verification of transactions and transactions was, as a rule, exhaustive;
3. The auditors were not concerned about an internal control assessment and, as a result, did not identify the risks due to insufficient internal control.

With the increasing complexity, in the conditions of the globalization of the activity of the entities, it generated the necessity to diversify the audit function, because the systems, areas and objectives audited are very diverse and complex, which is why we must have specialists from all specialties, and the international norms state that the auditor does not have to know all the crafts in the world in order to be able to practice his specialty; he only needs to have a good knowledge of the environment that he audits, understands and acquires the culture of the organization, through his professionalism and independence will be able to choose the methods, techniques and tools needed to obtain sufficient evidence that can provide a degree of assurance on internal control in some areas and provide recommendations for improving the entity's organization and use of resources.

Thus, in recent years, the audit has a rapid evolution and has become an unavoidable aid to the managers of the economic entity, its main objective being to assist members by assessing internal control, establishing [3]

- if internal control has detected all risks;
- if for all identified risks it has found the most appropriate procedures;
- if controls are missing in certain activities;
- if there are redundant checks.

1.1 Internal audit in addition plus value at entity level

Internal audit helps the entity achieve its objectives by bringing a systematic, disciplined approach to assessing and improving the effectiveness of risk management, internal control, and governance. It also provides the subdivisions of the organization, the Board of Directors, the Management Board with an independent and objective view of risk management, control and governance, measuring and evaluating their effectiveness in meeting the organization's established goals.

By defining the concept of internal audit in the literature, we note that it is not a unanimously accepted approach to internal audit, because depending on the type of entity, the role and attributions differ, but the basic definition is given by the Professional Standards of Internal Audit elaborated by the Institute of Internal Auditors, "*Internal Audit is an independent and objective activity that gives an organization assurance of the degree of control over operations, guides it to improve its options and contributes to adding value. Internal auditing helps this entity achieve its goals, evaluating in a systematic and methodical approach its risk management, control and governance processes by making proposals to enhance their effectiveness.*" The internal auditor's duty is to ensure by providing high-quality professional services in the assessment of goodwill and management's professionalism in the management of internal resources and risk management of the entity.

The purpose of the internal audit is to define the purpose of internal audit, which is to provide advice and provide objective assurance on the effectiveness of the financial management and control system by providing recommendations for its improvement, thereby contributing to the improvement of public entity activity, and the scope of internal audit includes all activities and operational processes of the entity.

Actually, in the Republic of Moldova, a particular emphasis is placed on the establishment and functionality of the internal audit units in the organizational structure of public entities if they are part of the central specialized body of the public administration or the local public administration authority of level two. At the same time, the other public entities have the right to create an internal audit unit with the consent of the hierarchically superior body, and the main concerns of the audit are regulated by standards, methodological norms and by the legal framework, such as:

- Reporting management to the highest level to make the right decisions in improving the entity's activity;
- assessment and supervision of the internal control system;
- provide advice and guidance to improve management, based on the risk analysis of auditable activities.

By law no. 229/2010 on public internal financial control clearly stipulates the rights and obligations of the manager and the internal audit unit staff, as well as the rights and obligations of the manager of the unit and of the audited entity. Thus, internal audit is an important constituent element of the internal public financial control structure, having the purpose and the well defined object, which presumes that:

- The objectives are to control the activities, which will lead to the improvement of the existing performance and not to its judgment, as the tax expert helps to better apply the tax regime. Even if the manager is judged by his audit reports, this is not the objective of the internal audit.

- Achievements should not be questioned by the auditee, and if this is done in a positive manner. For example, it is the case of an insufficiency, important irregularities discovered by the internal auditor, which immediately informs the manager and which he will resolve without delay. In this case, the malfunction reported in the internal audit report led to corrective action, which also resulted in the auditor's assessment as a dynamic and effective manager.

- Responsibilities should take into account that often the analysis of the causes of an irregularity reveals the existence of weaknesses that originate in shortcomings over which the manager has no good control. On this occasion, it is noticed that the solutions must come in a hierarchical way or even at the level of the organization, if they are problems of cultural dimension, professional training, budget, organization, computer science, etc.

Therefore, in an entity where the internal audit is part of the culture of the organization, it is accepted with interest, but in an entity experiencing significant potential risks, with the lack of compliance with the underlying regulations, with low efficacy and fragility due to the misappropriation of funds, the disappearance of assets or fraud, it is obvious that the manager will be judged, appreciated, considered according to the findings. In a standard case, the internal audit engagement may highlight inefficiency, redundancy in the system, or opportunities for improving activities / actions, but there are several reasons why management should not be directly addressed:

This paradoxical situation, often encountered, stimulates the logic of the auditee who finds that the internal auditor confirms the inadequacies he himself has signaled. From the above presentation, it results that this is the concrete and unequivocal advice given to the manager by the internal auditors.

The frequency of audit of the objectives and processes is determined based on the assessed risks. Thus, internal auditors can audit an entity for 8-12 weeks and then return after a period of 2-3 years depending on the risks that arise. In this sense, we need a risk measurement system. This is the audit plan, which takes place over strategic periods, usually 5 years, structured annually and includes all activities. The difference is that some activities will be audited once, and some more times depending on the risk assessment. Based on the audit plan, the number of auditors is also determined and according to them, the risks to be treated and those to be waived for the moment are selected. The periodicity of the audit engagement presupposes that the internal auditor may return at any time there, if deemed necessary, which is reflected in the plan of activity and programs established and previously approved between the entity and them.

The services provided involve the entity's help to achieve its objectives, which is achieved through a methodical and systematic organization of the audit process, aimed at improving control and management processes, at different times, helping operational management to improve functional management and risk analysis.

Therefore, the scope of the proposed law is public entities and does not extend to corporations.

1.2 The role of external audit in ensuring the degree of public internal financial control

The external audit is to ensure responsibility for the use of public funds in any modern democratic society and as represented by the state body of the Court of Accounts, which has the

competences established by the international standard, methodological norms and legislation, respectively:]

- assessing the legality, regularity, compliance, economy, efficiency, effectiveness of the management of public financial resources and public patrimony;
- promoting internationally recognized standards on transparency and accountability in public finance management;
- ensuring transparency by informing responsible public authorities and the general public about its strategic and annual plans, its findings and recommendations.

In all public entities or using the examination of accounts for all revenue, expenditure, public debt and all bodies created by it, unless otherwise specified, [7]

- the examination of revenue and expenditure ensures sound financial management, namely that the funds will be used in an economic, efficient and effective manner;
- submitting an annual report presenting its observations on the implementation of the budget of the public entity for each program / process for the year ended, as well as the legality and regularity of the operations;
- awarding procedural notices on proposals for Community economic legislation to be consulted on all proposals aimed at anti-fraud measures;
- ensuring that Parliament, within the limits of its powers, controls the execution of the public budget by publishing the audit reports and given verdicts.

Principles that are respected by both internal and external audit are:

- Independence in carrying out its activities;
- The findings are substantiated by appropriate and justifiable evidence, which is obtained through the use of various methods, techniques and tools

The main differences between the internal and external audit function are presented as follows, see Tab. no. 1.

In conclusion, the objectives and attributions of the two external audit functions and the internal audit to the financial-accounting function, we find that there are substantial differences. Thus, the internal audit's accounting function is assessed through compliance, regularity, effectiveness and management, and in the responsibility of external audit, it seeks to assess the same objectives but uses other audit methodologies as follows:

- *The external audit* exercised over the financial-accounting function performs the certification of the regularity, sincerity and fair image of the accounts and of the final financial statements;
- *The internal audit* of the entity's financial-accounting function assesses the internal control system and makes recommendations and conclusions for possible findings and provides reasonable assurance of its operation.

1. Typology of financial audit in public entities.

Therefore, due to the fact that the internal and external audit combines the analysis of the inheritance control with financial analysis elements or follows a procedure / operation, a process / financial activity as it has been carried out, we can conclude that the obtained evidence also has a financial character.

Financial audit today has several forms of achievement and expression in the work and audit reports, depending on who is achieved, which are its objectives and scope. Thus assurance on the management of financial resources can be provided by both the internal and external auditors as well as the financial auditors contracted.

For a more accurate financial statement, the entity should take into account its position in the state and the demands of its external partners.

Because the internal and external audit objectives are to carry out the insurance or advisory audit and are risk-based but also take into account possible risks, taking into account the preventive nature of the internal audit activity. Assumes that we can distinguish the following types of audit, listed in table no. 1. Thus their role is:

Table 1. Audit delimitation in the Republic of Moldova

Nr. crt.	REFERENCE FIELDS	INTERNAL AUDIT	EXTERNAL AUDIT
1	Staff	It is part of the function of the Service	Provider and is legally independent and reports to and subordinates to the Parliament of the Republic of Moldova.
2	Relationship with the entity	Employee of the entity	An independent public entity vis-à-vis other public entities.
3	Beneficiaries of the audit	Operational managers at all levels	All public and public interest entities that manage public takeovers and patrimony.
4	Objectives audit	Assess the internal control system and provide reasonable assurance to management that it is operational	a) assessing the legality, regularity, compliance, economy, efficiency, effectiveness of the management of public financial resources and public heritage; b) promotion of internationally recognized standards on transparency and accountability in the field of public finance management; c) ensure transparency by informing responsible public authorities and the general public about its strategic and annual plans, its findings and recommendations
5	The purpose of the audit	Serves the needs of the entity.	It serves the interests of a third person, physical or legal, who needs real financial information.
6	Audit types	a) system audit, which examines the financial management and control system to assess the efficiency of its operation; b) the compliance audit, which verifies compliance with the regulatory framework, policies and procedures followed and, where appropriate, the need to improve the internal control procedures used to ensure compliance with the legislation; c) financial audit, which evaluates the adequate and effective functioning of the internal control procedures related to the financial systems; d) performance audit, which examines the use of resources within a program, function, operation or management system to determine whether resources are used in the most cost-effective, efficient and effective way to achieve the objectives of the public entity; e) Audit of Information Technologies, which examines the effectiveness of financial management and control of information systems.	a) A compliance audit determines whether the activity of audited entities is in compliance with the legislation and rules established by the authorities. The compliance audit shall be concluded with a conclusion or opinion of the auditor on compliance. ; b) performance audit - assesses the economy, efficiency and effectiveness of a particular aspect of the operations carried out by an entity or a part thereof or in a program or activity. c) financial audit: Checks and evaluates the financial statements, financial systems and operations of the audited entity; examine the annual financial statements and the audited entity's accounts / reports in order to assess whether the reports are accurate and whether the accounts are presented truthfully and faithfully; assess compliance with financial reporting requirements; Evaluates the financial management and control system and internal audit of the audited entity; perform interim audit engagements throughout the financial year, including monitoring the implementation of previous audit recommendations and reviewing the actions undertaken on the basis of these recommendations.
7	The relationship with the employees of the entity	They always change the interlocutors according to the planned mission, and, from this point of view, the internal audit is periodic for those audited.	He always has the same interlocutors in the entity and, from this point of view, external audit is permanent for the audited.
8	Independence	It is independent in the exercise of its function in the sense of exercising objectivity and professionalism over the audited processes, but it is dependent on the fact that: - is an integrated part of the processes carried out by the entity; - It depends on the professional standards, and the legislation they have to comply with.	It has a specific independence that establishes its activity and manages its financial resources for the planned activities and is independent of the audited units.
9	Independence in relation to management	It is independent of audited activities, but it also responds to management needs	It is independent of audited activities, but it also responds to management needs
10	Method	It is a risk-based approach and any field of activity uses the same techniques and working tools.	The methodology is adjusted by its activity.
11	Working style	It focuses its attention on future events	It focuses on understanding past events and removing them in the future.
12	Fraud Prevention	It has the purpose of preventing the elimination of distortions and the prevention of fraud.	Centralize the focus on fraud detection and prevention and only focus on those that can affect the financial side
13	Audit perspective	Standards IIA	The audit standards of INTOSAI. and so on

• **The internal audit** is a technical, managerial and financial-accounting verification of a patrimonial entity designed to perform a general diagnosis of the system. This type of verification has a concomitant nature of events. In fact, it targets certain goals throughout the year, as well as those that are underway, so it is a permanent check. At present, internal audit activities are applicable to both public interest entities and public entities and was legislated for practical reasons due to the harmonization of the national regulatory framework with European standards, with our country's desire to join the European Union. [1] In order to achieve these objectives, the internal auditor, in the study of the accounting function, examines:

- compliance with the operating rules established by the entity (assignment of tasks, working procedures, planning, etc.), causes and possible consequences;

- the whole of the internal control system that governs the operation of accounting and enables the responsible person to have better control over the activity. That is why he has to worry about the professional training of the accountants, as well as the organization of the work.

All this information allows us to form an opinion on the control over the accounting operations and therefore to recommend suitable solutions for its improvement. This way, we can figure out how much an internal auditor would try to make a certification, in the sense that it would eliminate from the very beginning the possibility of making an exhaustive judgment.

We specify that the internal attribute of the internal audit function is an essential feature of this activity, and even the eventual outsourcing of the function should not lead to a change in the content of this activity.

The exercise of the function in the interest of the entity implies its involvement in the improvement of the entity culture, the internal audit having to make an essential contribution to its consolidation.

• **The external audit** that evaluates the activity of public entities aims at verifying the degree of internal control as well as the internal audit activity. Through the obtained evidence it can formulate the findings regarding the degree of accomplishment of the internal control and the management of the public / external resources / funds.

The *objectives* of the *external auditor*, in analyzing the accounting function, to assess the regularity, sincerity and true image of the accounts, examine in more detail: [2]

- exhaustiveness of the records;

- the veracity of the figures;

- the correct evaluation of the operations;

- registration period;

- Correcting situations according to legal obligations.

In conclusion, the scope of internal audit and external audit is not confusing and demonstrates at the same time the complementarity of the two activities, as shown in the table above.

2. Auditing and financial control of entities

Financial control, as a form of knowledge of patrimonial reality in a market economy, envisages three positions of economic and financial interest: [4]

- the interests of the economic managers in order to obtain the management of the financial resources;

- the interests of external experts on the veracity of the acts produced by the entities and the reality of the information received from them;

- state interests based on the reporting and results of the public entities' activity.

Therefore, the management of patrimonial entities not only seeks to identify and correct deficiencies, but also to collect timely and real information that can be provided only by means of financial audit activities that will provide it with the information base for quality, forecast. The knowledge gained through the financial audit activity is based on a rigorous analysis of reality in order to identify and remedy any deficiencies. Also, an important part of the financial audit activity is to identify the management's objectives.

For these choices there may be different views between managers and financial auditors, but they can be argued. Whatever the point of view, the financial auditor actually understands that management's position is taken to record successful activities.

Financial audit is intended to express its opinion on the regularity and sincerity of the data presented in the financial statements by the report issued and from their synthesis results a clear, complete and complete image of the patrimony and are interested in the following aspects:

- affiliation and supporting documents of the goods and processes carried out;
- management is in line with Standards and legislation;
- compliance with financial control procedures;

Their objective is to determine whether the financial statements present a true and fair view, the results of the year and whether the financial statements at the year-end, operations and assets and liabilities have been properly recorded in the financial statements. The audit of good financial management aims to assess which of the measures planned by the entity have been well applied in the light of the principles of sound financial management of the European Union funds, respectively through the following types of audit: [4]

a) **Financial statements audit** - is the audit performed by financial auditors in order to certify that the information described in the financial statements (in the balance sheet, the profit and loss account, the cash flow statement, etc.) accurately presents the real situation heritage and comply with legally accepted principles. The audit of financial statements may be performed by several categories of auditors, but generally it is associated with independent external auditors, and in our country it is also known as financial audit or external audit.

b) **Operational audit** - is also known as performance audit or managerial audit and refers to the assessment of how the audited entity is conducted on the basis of the principles of economy, efficiency and effectiveness.

In the literature, there are controversies about the notion of operational audit in the sense that some authors use either the name of a managerial audit or a management audit or performance audit, while others use all of these names considering that they have the same meaning .

In view of the above, we believe that the use of the notion of operational audit is appropriate because the use of the other names may give rise to confusion or subjective interpretations. To reinforce this conclusion, we can argue that if we use the notion of managerial audit, it can easily be confused with management audit, which has a different meaning.

In general, the operational audit is carried out by internal auditors, who have the advantage of having a thorough knowledge of the unit, but there are also situations in which their competencies in a given field are not sufficient, then the services of specialists outside the unit .

Such a financial audit is commissioned by managers in order to receive recommendations for improving operational activities. An example of an operational audit work is auditing the efficiency of fixed assets in a unit, which we could advise that this type of audit is approaching more than managerial consulting rather than the typical objectives of a financial audit.

c) **Compliance audit** - is also called a regularity audit and is designed to provide reasonable assurance of the detection of errors resulting from non-compliance with contractual provisions, which has a considerable impact on the financial statements.

Relational Accounting - Financial Control - Financial Audit, Harmonized with International Accounting Standards The users of accounting information confuse the notions and activities of accounting, financial control and financial audit.

From the research of the bibliographic resources, a series of opinions argue that the sources of the financial audit are common to those of financial accounting and control, and there is no precise delimitation between them. In this regard, we can mention Richard Brown's opinion, quoted by two other specialists in the field [2], according to which the origin of the audit is located in the past, just a little further than the origin of the accounting. Whenever the progress of civilization led to the need for a man to be entrusted to a certain extent, the property of another, the opportunity of a certain type of verification of the fidelity of the former becomes evident. The doctrine has revealed that financial audit is in line with other economic areas, such as accounting, financial control, internal audit, etc.

Consequently, we can conclude that a simple yet concrete classification helps more than the use of such original criteria.

Overall conclusion: Accounting and auditing are designed to provide the best financial reporting systems for the benefit of corporate governance as a set of principles that influence fairness and ethical behavior in the entity.

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