

External Auditors: The Reassessment of the Traditional Approach of Auditing within Public Administration

Elvira NICA¹

Abstract: *External auditors: the reassessment of the traditional approach of auditing within public administration represents a paper focused on the high importance of implementing the external auditor's usage, in order to improve the quality and accuracy of public entity's activities. Therefore, supported by the legislative are the internal audit is found to be extremely necessary for the good management of the public resources. But in order to prevent the occurrence of global risks negative effects, public administration is facing the need of a thoroughly overall control that should reveal the areas that are less emphasized and encounter problems during the performance of specific activities. The present paper focuses on highlighting the strong accuracy of external audit reports including the reengineering recommendations for the risk-prone public administration's areas. Moreover, the main objective of the present paper is setting guidelines for outrunning the traditional public audit approach in order to come into the line with the European tendency of integrating within public policies the role of external auditors, by reinforcing, in the same time, the sine qua non qualitative interdependence, materialized in the optimal public resources management.*

Keywords: *public administration, control mechanisms, external auditing, accuracy certification, risk assessment.*

JEL: *M1; M4.*

Introduction

The primordial concern of public administration is represented by appropriate internal management of public services (Plumb *et al.*, 2003). From this point of view, we must take into consideration the current need of rethinking the public service management tools in order increase their quality, performance and accuracy. The alignment with European standards will no more represent just the adoption of regulations but also the reengineering of public administration functioning components and the revision of public services provision.

In this matter (López & Peters, 2001), it is set by default that the management tools should be permanently adapted to the current changes,

¹ University Lecturer, PhD, Bucharest Academy of Economic Studies, Bucharest, Romania, email: popescu_elvira@yahoo.com

constraints and specifications found within contemporaneous autochthonous public administration, as the outrunning of the actual downturn can be solved only by using an explicit redesign of internal and external evaluation of the public administration action areas. As public administration seems to enter into a new era of management, its control mechanisms should also keep up with the prevailing trends.

In this light the external auditor's usage will be less an alignment to specific regulation and more a strategic input for risks reassessment within public administration.

1. The public internal audit legal framework footprint

Given the fact that public administration provides services that meet public needs, varied needs, it is known that it uses bodies that register in the normal administrative functioning entirely through administrative procedures and bodies being administrative only by their origins, by the presence of a large portion of capital used, by certain rules of operation, by the control they are subjected, but which, in many ways, are closer to ordinary industrial and commercial enterprises.

Therefore, it is required a constant updating of modalities and techniques to audit the activities of these organizations serving the needs of state citizens. Moreover, concern for the legitimacy of decisions taken must represent a fundamental pillar of proper management to avoid any risk.

Organizing and conducting internal audit activity is regulated in Romania by Law no. 672/2002 on public internal audit, GO no. 37/2004 for amending and supplementing regulations on internal auditing, OMFP no. 38/2003 on the general norms of public internal audit exercise, OMFP no. 423/2004 amending and supplementing the general norms for the exercise of the internal audit activity OMFP no. 252/2004 for approving the Code of Ethics of the internal auditor and OMFP 1702/2005 for approval of the organization and pursuit of counseling. Of course, the risks that lurk public system are varied, from this point of view the audit must be designed in such a way as to cover all sides of the public entity action.

Thus, the legislation promotes the desirability and the opportunity of these audits, delimiting the field of their analysis. Therefore, the types of audit, supported by legal perspective are:

a) **System audit**, which provides an assessment of the depth of management and internal control in order to determine whether they operate economically, efficiently and effectively, to identify deficiencies and make recommendations for their correction;

b) **Performance audit**, which examines whether the criteria for implementing the objectives and tasks of the public entity shall correct the results and assess whether the results are consistent with the objectives;

c) **Regularity audit**, which is examining the financial impact of actions on public funds or public property, in terms of compliance with all principles, rules, procedures and methodologies that apply to them. (672/2002 Law, art. 12).

For the purpose of the internal audit activity improvement, the **Central Harmonizing Unit for Public Internal Audit (CHUPIA)** (Inforegio, 2011), which is attached to the **Internal Audit Committee (CAPI)** issued the following practical guidelines for implementation of internal audit functions of public organizations, which are available on the website of the Ministry of Economy and Finance:

1. **A practical guide for human resource management activities;**
2. **Practical Guide for procurement activities;**
3. **A practical guide for legal work;**
4. **A practical guide for financial and accounting activities;**
5. **Practical Guide for IT activity.**

These are the procedural guidelines governing the conduct of public internal audit.

Therefore, the legislative field is backing up the initiatives for external public audit, by the understanding and awareness of an overall control, having as the main purpose the plans to conduct activities within the public entity accuracy.

2. The complementarities of public internal audit and external auditors' usage

The very first thing that is foreseen, taking in consideration a comparison between the traditional approach of auditing within public administration and the modern trend, is that both are and will continuously remain the fundamental basis of providing quality and consistency to the final audit report that will contain the needed recommendations to be implemented in the following period.

In the same light, below we have illustrated the main properties characterizing both internal and external ways of auditing the activities within the public administration:

Table 1. Comparison between public internal audit and external audit

CRITERIA	PUBLIC INTERNAL AUDIT	EXTERNAL AUDITORS USAGE
1) Statute	Integrated within the public entity	Specialized company focused on external auditing
2) Who makes the appointment	The head of the public entity with the approval of the public internal audit department head of the hierarchically superior authority	The general meeting of shareholders or the Board of Directors

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3) Auditing objectives	The assessment of internal control system and the insurance of its public entity leadership that it operates	Certifying the accuracy of control mechanisms, the external auditors are also evaluating the public internal audit system
4) Audit beneficiaries	Public entity management of all levels	All those who request a certification of control mechanisms
5) Field of applying the auditing	The field is vastly because it includes all institution's functions	The field is more limited, being focused on verification of those issues that determine the financial and enterprise performance
6) Audit periodicity	Activity made permanent within the entity throughout planned actions, depending on risk analysis	Missions are organized in an intermittent manner and certification in good time, that after the end of the year.
7) Auditors independence	Auditor independence is relative, it can be considered independent in exercising its functions, in the sense of an independent mind to the issues that he explores	The auditor is independent from the public institution, it exists a specific independence as a holder of a free profession, subject to law and statutory
8) Used methodology	It has a clearly established methodology, targeting specific risk assessment and value adding	It has a standardized and precise methodology based on inventories, lead analysis, comparisons, reports, using experts, external confirmation.

(Source: Morariu et al., 2008: 29)

The analysis of data, inserted in the table above, emphasizes the complementarities between the public internal audit and the external auditing, maintaining as its central pillar the control mechanisms coherence insurance.

What is to be mentioned is that the two types of audit are found to be interdependent and are needed in the same manner, in order to properly serve the public needs of the citizens (Arela, 2010).

3. External auditor's usage-the strategic input for risks reassessment within public administration

Therefore, the usage of external auditing is found to be a proper strategic input for contemporaneous risks reassessment within public entities, as its construction can be focused on areas that are less emphasized during internal audit and can offer to its beneficiaries some critical point of view regarding public risks occurrence and the needed decisions to be taken in order to forewarn or overcome crisis.

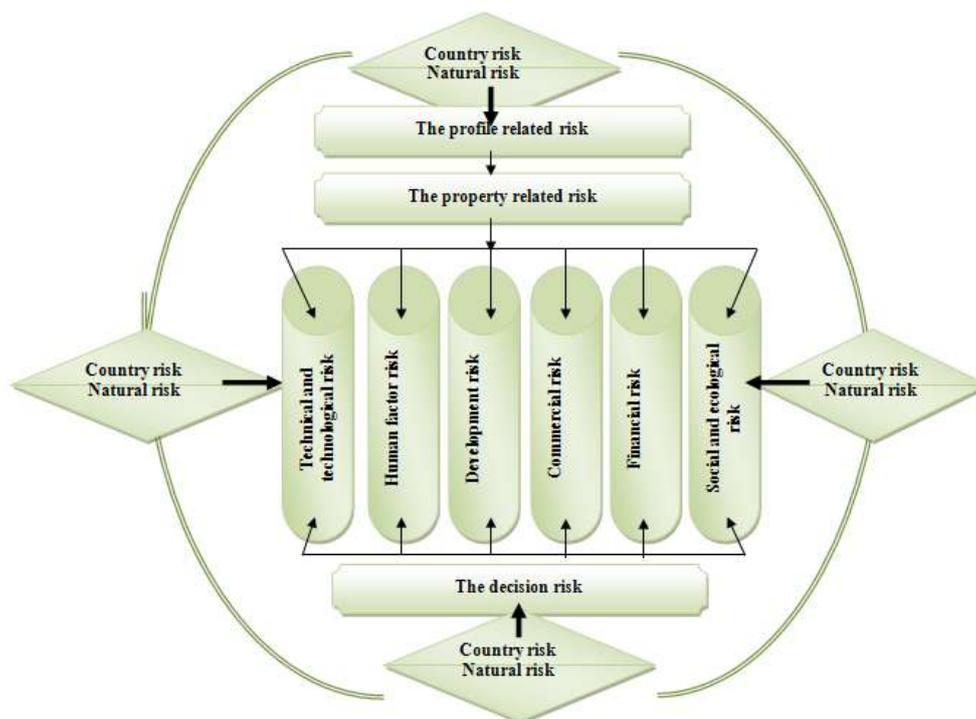


Figure 1. Public entity's global risks

(Source: Szathmary-Miclea, 2004: 62)

Having into view, the contemporaneous period, characterized by uncertainty and financial decline, a coherent risk management instrument is found to be necessary, in its future role as a yardstick for the measurement of performance and actual risk from active public entity's managerial board.

Therefore, external auditors play a key role in improving the public policies, by reviewing internal public operation's assessment, evaluating risk management measures for their appropriateness in relation to exposures and reporting the inherent risks in the public entity they are auditing.

Moreover, by providing the possibility of an ex-ante and an ex-post audit it can be concluded that the scope of a performance audit or a compliance audit is usually much larger than a financial audit certificate, even if such audits include the same entity and the same time.

In Romania, the 217/2008 law that modifies the 94/1992 law regarding organization and functioning of the Court of Auditors mentions that the external audit stands for the audit work carried out by the Court of Auditors, which comprises mainly financial audit and performance audit.

Moreover, appointed external auditors to audit public accounts and other activities for which the Court has jurisdiction shall report that presents findings and conclusions, make recommendations on measures to be taken and expresses a view

to them under the procedures own, established by a regulation approved under Art. 12. (2) (217/2008 Law, art.38).

So, in Romania regarding the financial aspects we have a current available regulation focused on the external auditing.

But, in order to have a properly developed public administration the external auditing should be integrated within the usage of all public resources (Clive and Jeffrey, 2010).

The external evaluation, mainly reported to the quality insurance of the overall areas pending actions and resources should be made constantly by an independent auditor, in order to reveal correctly and truthful the actual status of positive and negative public components tendencies.

Basically, the external auditing ensures the unbiased outlining expression of opinion, whether the situations presented as the official position of the public entity give a true and honest value to the public entity's activity at the end of the period that has been under a magnifying glass.

Also, using constant external auditing tools on specific activities of public administration it can be designed a constantly evaluation of internal control environment dynamics and identified whether the audited entity internal controls or the audited entity's procedures may prevent, eliminate or minimize the occurrence of public domain risks (Rittenberg & Covaleski, 2006).

Moreover, given the fact that between the external auditors usage and quality of public services there is a complementary relationship, ensuring quality stands for an improvement instrument and external audit represents a control instrument, the qualitative design on policy areas of public administration, with positive effects offers the guarantee that the audit examined the major components in the specified activities and the results of the audit report, as they appear in the audit report, represent a true and accurate mirror of all analyzed material components, and of aspects of the real situation subject to auditing.

External auditors' independence allows them to judge impartially and without prejudice, which is essential for the proper conduct of audits. This strategic objective can be achieved due to their external entity position and due to their objectivity (Morariu *et al.*, 2008).

Conclusions

As strategic input for risks reassessment within public administration, the external auditor's usage must be properly handled as the a priori and a posteriori audit are subject to revealing the elements that can converge to designing the risk-generating elements.

Thereby, the primary purpose of an effective management of all public resources be they human, material or financial information, is designing the optimum balance of administrative apparatus functioning. From this point of view,

it is necessary to provide a periodical control for the internal audit mechanisms in terms of their operation at a fair and coherent level.

The usage of external auditor should cover the quality insurance, by being subject to independence and impartiality from public sector policies. Therefore, the recommendations provided in the external public audit report should reveal actions to be made in order to really improve public administration functioning.

As our paper already stated, the external public control is due to be made complementarily to the public internal control in order not to leave any public instrument unanalyzed from its critical exposed to risk side.

In conclusion (Petrescu *et al.*, 2010), only a very rigorous approach, continued and deepened at all levels of development of specific activities of public administration, may result in an effective and complete control and reduce risk factors.

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