

COMPARATIVE ASPECTS ON PUBLIC INTERNAL AUDIT AND ON FINANCIAL AUDIT

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Abstract:

The method of evaluating risk management and control systems represents important objectives in the audit work, the main purpose being to ensure managerial assistance which, in turn, generates a permanent and effective control on the whole economic and financial activity. Through this scientific approach we wanted to highlight the importance of the two types of audit by making a comparative analysis which points out the characteristic differences and similarities.

Keywords: *public internal audit, financial audit, international auditing standards, accounting financial activities, public and economic entities.*

JEL Classification: *M01, H83, M42.*

1. Introduction

The emergence of public internal audit and of financial audit has determined many debates of ideas, conceptual and of act clarifications and delimitations, as well as the reorganization of the internal control in the idea of its complete separation from audit.

The internal audit exists and it functions in all entities, irrespective of their field of activity. It was born from the practice of international entities, it was then transferred to the national entities and later on it was assimilated into administration, too. The officials responsible for organizing the internal audit activity, for coordinating the works/commitments and for signing the internal audit reports should have the quality of a financial auditor [6].

The financial audit is the activity performed by financial auditors in order to express an opinion on financial situations or on some components of these situations, to practise other assurance missions and professional services according to the International Audit Standards and to other regulations adopted by the Chamber of Financial Auditors in Romania [10]. The financial auditors perform, during the planning and independent practising of the profession of an active financial auditor, the assessment of the function of internal audit both in terms of the adequacy degree of the scope of the related programs implemented and in terms of its performance, in order to determine the extent to which they can rely on the results of the internal audit when exercising their activity of financial audit. In accordance with the legal provisions, the economic entities whose financial situations are subject to financial audit have to organize and ensure the practice of internal audit professional activity [11].

The financial audit covers financial and accounting activities, while the internal public audit covers a broader area, it includes all activities within the entity, hence the universality of the audit function.

2. Approaches on public internal audit

The problem of internal audit is extremely vast and diverse, giving rise to various opinions on the definition of the concept, on the establishment of the internal audit objectives, but also on its organization and practice at all levels. According to the law, the activity of internal audit is defined as being "an activity functionally independent and objective, of assurance and counselling, made to bring value and improve the activities of public entities, which helps the public entity meet its objectives, through a systematic and methodical approach, evaluates and improves the efficiency and effectiveness of risk management, of control and of the governance processes".

From the analysis of this definition, we can highlight some *specific features of the public internal audit*, namely:

➤ *Public internal audit is an activity within public entities.* According to legal provisions [9], public entities include "the public authority, the public institution, the national institution/society, the autonomous administration, the company where the State or some territorial-administrative unit is the majority shareholder and which has legal personality, as well as the entity financed more than 50% from public funds". Being an activity carried out in the government sector, it is governed by the laws and regulations issued by the Ministry of Finance. The norms drawn up have a general character, each sector of activity having the

obligation to develop their own norms according to the specific of the activity [2].

➤ *The public internal audit is an independent activity.* The public internal activity has to be independent and the internal auditors have to be objective in accomplishing their tasks.

➤ *The public internal audit is an objective activity.* The objectivity of this activity comes from the fact that the auditor is a person with a high degree of training and the quality of auditor gives him a high degree of independence from the management of the institution. The internal auditors should avoid evaluating certain operations they were made responsible of in the past. The objectivity of an auditor is considered impaired when he carries out an assurance mission for an activity he was made responsible of in the previous year.

➤ *The public internal audit provides assurance and advisory to the management for a proper administration of public revenues and expenditure.* This feature derives from the fact that internal auditors demonstrate professional objectivity, collecting, evaluating and communicating information about the activity or the process examined.

The activity of the internal audit aims at informing management to better administrate the activity of the entity. The auditor has an advisory role, informing the heads of departments and the leader of the entity about the deficiencies found in the various audited activities, in order to correct them [4]. Consequently, the internal auditor has the role to advise, assist or recommend and by no means to use corrective measures in order to remedy deficiencies.

Another definition of the internal audit is given by the Internal Auditors Institute (IAI) within the International Standards on Internal Audit. According to this, the internal audit is an "independent and objective activity which gives assurance to an organization regarding the degree of control held on operations, it guides the organization in order to improve its operations and it contributes to adding some value".

Within the public entities, the internal audit is performed by the department of public internal audit which evaluates if the management and internal control system are transparent and in accordance with the rules of legality, regularity, economy and efficiency [7]. The internal audit is exercised over all activities in a public entity, including over the activities of the subordinate entity, coordinated or under its authority, regarding the formation and use of public funds, as well as regarding the management of public assets, which is carried out in accordance with a specific methodology of the internal audit.

3. Approaches on financial audit

The financial audit is the activity of verifying the financial statements of economic entities by the financial auditors according to the International Standards on Audit. The financial audit means:

✓ *professional examination of information aiming to show a responsible and independent opinion by reporting it to a criterion or to a standard;*

✓ *research in order to produce a motivated and independent judgment, with reference to the evaluation rules, to assess the reliability and efficiency of the systems and procedures of an economic entity [3];*

✓ *an objective examination of an item in order to express an opinion or to obtain a conclusion on the subject of the audit.*

The fundamental principles [1] that underlie the conduct of the financial audit activity are:

▪ **integrity** in professional, business and personal relationships includes the honesty, the justice and the fairness of the financial auditors performance;

▪ **objectivity** of profession represents the act of conscience in evaluating relevant considerations for each commitment;

▪ **independence**, which implies the practice of the mandate by the auditors who do not have civil or legal relations with the customers and no other direct or indirect material interests, excluding the fees for the work performed as auditor;

▪ **professional competence** and observance of confidentiality on the information they operate with.

To ensure observance of the fundamental principles, the financial auditors must comply with the following **general rules**:

✓ *not to accept the mandate if for the last two years they were administrators or employers of the client or of the entity from the same group or if within the management or the significant shareholders of the client or of the entity from the group there are relatives or family ties to the fourth degree of the financial auditors [5];*

✓ *not to directly or indirectly engage in the financial activity of the client;*

✓ *during the course of the financial audit activity not to perform accounting operations for the respective client;*

✓ *if performing accounting, consulting, taxation or other related activities, not to accept the mandate of financial auditor for the same client [8];*

✓ *the auditing contract has to include a confidentiality clause;*

✓ *to obey the decisions of the Financial Auditors Chamber in Romania in case of limiting the number of mandates that can be carried out for the same client.*

By summarizing the presented, it means that the financial audit must restore a reasonable confidence between the producers and users of accounting information, assuring them that they have complied with the generally accepted accounting principles and internal procedures established by the management of the entity, as well as reflecting a true and fair image of the financial situations.

4. The main similarities and differences between public internal audit and financial audit

From the analysis of the available materials to achieve this approach, we have identified the following *similarities* between public internal audit and financial audit, among which we can mention:

- ✓ *It is conducted by specialists in the financial accounting domain;*
- ✓ *Both the public internal auditor and the financial auditor apply the applicable legal provisions and identify the deviations, deficiencies and shortcomings to the rules in force;*
- ✓ *Information systems are used to control or audit the activity of the public entities or of the economic agents;*
- ✓ *Specific procedures and techniques are used by the public internal audit and by the financial audit;*
- ✓ *They express recommendations on the accounting system and its reliability, the decision-making system.*
- ✓ *It is an independent examination which provides assurance and counseling to the management and it is performed by an auditor.*
- ✓ *It is completed by drafting an audit report;*
- ✓ *Technical-operative and accounting records of the audited entity are used as sources of information, along with the computerised database.*

Among the features that customize the financial audit as compared to the public internal audit, we mention:

- The activity of financial audit is the materialization of the improvement and adjustment of this activity not only to the provisions of the internal regulations, but also to the international audit standards, as a means which considers the specific of the activity and the organization of certain categories of economic entities;
- The categories of entities that fall within the scope of coverage of the financial audit shall be determined by the Central Government Body, the Ministry of Public Finance;

- The financial audit activity has a close relation with the Romanian accounting system, with the international accounting standards, in the sense that the financial audit activity “develops” and “extends” to the economic entities, in direct correlation with two basic conditions: the harmonization of the Romanian accounting regulations with the Fourth Directive of the European Economic Communities and with the International Accounting Standards;

- The fulfillment of the conditions and criteria laid down expressly in the Romanian accounting regulations by the economic entities included in the program of implementation of these regulations, as well as of the terms from which they have the obligation to audit the financial statements according to the regulations in force.

Regarding *the differences* between the public internal audit and the financial audit, among the most significant ones identified, we mention the following:

<i>Public Internal Audit</i>	<i>Financial Audit</i>
It is performed by public auditors, by individuals.	It is exercised by financial auditors, individuals or legal persons.
It uses national standards of audit.	It uses international audit standards and national audit standards.
It evaluates the findings of the internal control management.	It evaluates the findings of the financial control.
The public internal audit scope includes: management and control systems, inclusively accounting and computer systems.	The financial audit scope is about the financial-accounting evaluation, the true picture of the assets and of the financial position.

5. Conclusions

Through this work we attempted to make a comparative analysis on the public internal audit and on the financial audit in order to highlight the great importance that these two types of audit have on the economic and financial activities of public and economic entities.

Lately, the audit activity has been seen as an activity that brings value, that helps improving the operations related to risk management, to internal control and implicitly to financial reporting. Like any other activity, that of internal audit and financial audit faces issues regarding the implementation of this activity, pointing out a series of malfunctions which result both from the legal void and from the confrontation with the economic, social and political realities existing in the current economy.

The audit is interposed between the producers and users of accounting and financial information by high class professionals who take responsibility in assuring that the financial statements issued, by the economic entities are achieved and presented, in all significant aspects, according to some well-identified references. Currently, many of the economic and public entities are confronting the problem of identifying and recruiting suitable and qualified personnel, as well as of keeping them via training courses organised at public system level.

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