

COORDINATION OF AUDIT WORK BETWEEN THE INTERNAL AND EXTERNAL AUDIT

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Abstract: The audit function is an essential element in managing public finances and improving public performance in general. In the field of internal and external audit, standards have been developed to guide this activity and are used by auditors and relevant structures as reference points to carry out audit work. By its nature, the audit covers a variety of activities and themes that act as a mechanism by providing guarantees to governments, ministries (internal audit) and Parliament (external audit) that public funds are spent in accordance with the legislative framework and that the use of public to the government correctly represents its financial position, as well as the promotion of public resources with efficiency and effectiveness for the benefit of taxpayers. Even though external and internal audits have different roles and responsibilities, their common purpose is to promote good governance by contributing to transparency and accountability.

JEL classification: H83, M42

Key words: internal audit; external audit; INTOSAI Auditing Standards; audit activity; public sector

1. INTRODUCTION

Similar work carried out by external and internal audit provides co-ordination and co-operation opportunities, which undoubtedly has to take into consideration the legal and constitutional framework that sets these two functions. Coordination between the two audit functions should be considered as an added opportunity to improve the effectiveness of the audits performed. From the external audit point of view, co-operation and coordination is only possible when some basic criteria on common skills and competencies are met but this does not exclude the possibility of establishing other forms of interaction, such as discussion information or document revision to assist in the recognition of the operations of the subjects under audit. If the internal audit work is based on credible facts, adequate enough for external audit, then it serves as an indisputable source of information and allows external audit to focus on other assessments related to the economy, efficiency and effectiveness of using public funds. Public Audit in Romania is a system of internal audit as an independent organizational part of public entities and external audit, represented by The Court of Accounts. Despite

reference frameworks related to applicable standards that are different for internal and external audit, both by the Institute of Internal Auditors and by the Court of Accounts, it is noted the need for mutual recognition of the scope as well as the need for cooperation and coordination in the audit work. From a formal point of view, the audit function in the public sector is legally defined and is generally ensured by both external and internal audit. Although the audit coverage guaranteed by the constitutional, legislative, regulatory frameworks as well as by the audit standards, it can not be said that the dynamics of interaction between these two forms of audit are exhausted in an attempt to offer taxpayers the assurance that the funds are spent according to the legal provisions in force, with economy, efficiency and effectiveness.

According to Endaya (2014) since internal and external auditors have some common goals, an effective coordination and cooperation between them can be beneficial. This helps them to reach their objectives and provide a better service to audit clients. The coordination of internal audit activity with external audit activity is very important from both points of view: from external audit's point of view is important because, in this way, external auditors have the possibility to raise the efficiency of financial statements audit; the relevancy from internal audit's point of view is assured by the fact that this coordination assures for the internal audit a plus of essential information in the assessment of risks control (Dobroțeanu, L.&Dobroțeanu C.L., 2002). The public audit should be seen as a dynamic process that "should evolve along with society" and is closely related to its stage of development (Munteanu, Zuca și Țiță, 2010).

2. OBJECTIVES

In this study, we will focus on the necessary support to internal auditing in the public sector through co-operation with external audit so that internal audit strengthens its professional independence, fosters the implementation of international standards of Internal Audit and to act as an added value not only for the head of the institution where it operates but also for the external audit. The purpose of this paper is to encourage cooperation between internal and external auditing by identifying audit contact points and developing common methodologies.

3. METHODOLOGY

Through this study we intend to analyze the level of coordination of internal and external audit, represented by the Romanian Court of Accounts, based on the specific requirements of the international auditing standards INTOSAI, in particular the Lima Declaration, INTOSAI GOVs 9100, 9120, 9130, 9140, 9150 which refers in detail to the specificity of the relationship that should exist between the two types of audit, as well as to the review of the relevant legislation governing these two functions. In order to verify how the legal framework and internal and external audit standards create room for a co-operation and coordination of work between internal and external public audit, we will consider the relevant legislation that regulates these two functions and international standards of both internal and external audit.

4. ANALYSES OF COOPERATION BETWEEN EXTERNAL AUDIT AND INTERNAL AUDIT ACCORDING TO THE LEGAL FRAMEWORK AND INTERNATIONAL INTERNAL AND EXTERNAL AUDIT STANDARDS

For the internal and external audit activity, there are developed standards which guide the audit work and are used by auditors and relevant structures as mandatory benchmarks for the purpose of carrying out audit work.

Public internal audit, component of the internal management control system, is regulated by Law No. 672/2002 on Public Internal Audit, republished, subsequently amended, being organized under the direct dependence of the executive, the Head of the public entity. The present law regulates the organization and exercise of internal audit in public entities, the scope of application, the audit types, the employment criteria and certification of internal auditors, their rights, responsibilities and other aspects.

External public audit, according to Law No. 94 of 8 September 1992 (re-issued) on the organization and operation of the Romanian Court of Accounts, is the audit activity conducted by the Court of Accounts that shall mainly comprise financial audit and performance audit. Through its audits, the Court of Accounts aims at the effective, efficient and cost - effective use of public funds as well as the public authorities and the public through the publication of its annual reports. The Court of Accounts conducts its activity autonomously, in keeping with the provisions of the Constitution and of this law.

Internal audit activity in the public sector in Romania is based on International Standards for the Professional Practice of Internal Auditing, The Core Principles for the Professional Practice of Internal Audit, its own rates, the Internal Audit Charter, The Code of Ethics for internal auditors, internal audit manuals and other specific acts for performing the audit service. Internal public audit is functionally independent and objective activity provides assurance and consulting, conceived to improve the activity of the public institution; it helps the public entity to accomplish its objectives by a systematic and methodical approach meant to assess and improve the effectiveness, and efficiency of risk management, of control and governance processes. The general objective of internal public audit in public entities is the improvement of the management thereof and can be reached mainly through assurance activities and consulting activities. The area of internal public audit comprises all the activities carried out by the public entities in order to fulfill their objectives, including the assessment of the management control system there of. ART. 6, point (g) of the Law No. 672/2002, republished, defines that the Committee for Internal Public Audit (CIPA) analyzes the cooperation agreements between the internal audit and the external audit referring to the definition of the concepts and the use of standards in the field, the exchange of the results from the audit activity, as well as the common professional training of the auditors, whereas ART. 8, point (o) defines that the Central Harmonisation Unit for Internal Public Audit (CHUIPA) cooperates with the Court of Accounts to ensure the complementarity of the internal public audit activities and the external audit activities and to increase the efficiency, as well as with other institutions in Romania, under observance of the independence, functions and specific requirements of each profession.

The Institute of Internal Auditors is an international professional association, established in 1941, with more than 185,000 members, which aims at providing dynamic leadership for the global profession of internal audit. As far as internal auditing standards are concerned, they provide for Standard 2050 - Coordination and Reliance, that the chief audit executive should share information, coordinate activities,

and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. From an internal audit perspective in Practice Advisory 2050 – 1: Coordination (Primary Related Standard 2050), among others it is said that the external auditor may rely on the work of the internal audit activity in performing their work. In this case, the CAE (audit unit) needs to provide sufficient information to enable external auditors to understand the internal auditors' techniques, methods, and terminology to facilitate reliance by external auditors on work performed. It may be efficient for internal and external auditors to use similar techniques, methods and terminology to coordinate their work effectively and to rely on the work of one another. It is also suggested that the planned audit activities of internal and external auditors need to be discussed to ensure that audit coverage is coordinated and duplicate efforts are minimized where possible. Referring to international standards, whatever the governance structure is, the need for independence and objectivity of internal audit is critical to guaranteeing taxpayers and stakeholders the accuracy of audit work, credibility, facts, results and impartiality. The nature of internal audit and its role in providing impartial and accurate information on the use of public funds and services requires that internal audit activity should be carried out without interference or pressure from the institution supervised by the audit. Keeping the right relationship with the management and staff at all levels of the institution is essential to the effectiveness of the internal audit function. By providing impartial information and objective assessments on the accountability and effectiveness of public resource use, internal audit assists public institutions in achieving the right levels of accountability, integrity, improvement of activity and strengthening taxpayer confidence.

According to the Internal Audit Report of Romania's Public Sector for 2016, it is noted that there are 13.807 non-implemented recommendations and 4 cases of unresolved recommendations. From the review of internal audit legislation referring to the conduct of the audit and its outcomes between internal auditors and the Head of the audited entity regarding their disputes and the principle of independence, this independence goes as far as reporting to:

- ✓ The Head of the public entity;
- ✓ The internal audit committees, which analyzes and issues an opinion on the recommendations formulated by the internal auditors, including on those that were not accepted by the head of the central public institution;
- ✓ The internal public audit department inform the Central Harmonisation Unit for Internal Public Audit (CHUIPA) on the recommendations not followed by the head of the audited public entity and of their consequences;
- ✓ The Committee for Internal Public Audit (CIPA) - Analysing the importance of the recommendations expressed by the internal auditors in cases of divergent opinions between the Head of a public entity and its internal auditors and issuing an opinion on the consequences of not implementing the recommendations of the internal auditors.

In the field of external public audit, based on ART.1, point (2) of the Law No. 94/1992, re-issued, the Court of Accounts define the basic principles and set a unitary framework for the implementation of the procedures and methods used in the conduct of the external public audit, so as to ensure the activity quality. The control function of the Court of Accounts shall be implemented by means of external public audit

procedures, provided in the own audit standards, drafted in keeping with the generally accepted international audit standards. The own audit standards of the Court of Accounts are drafted based on the Audit Standards of the International Organization of Supreme Audit Institutions (INTOSAI) and of the International Federation of Accountants (IFAC) and aim at the enforcement of the best audit practices. Chapter 1, point 1.4, of the “Standards of Audit of the Court of Accounts”, describe the standard for the use of internal audit activities. The Court of Accounts takes into account the internal audit work only if a number of criteria have been met, such as if the internal audit activity is reorganized according to the law, if the work is carried out by an auditor with experience and knowledge level sufficient, if the recommendations given by the internal auditors are implemented, if the audits performed are in accordance with the audit plan, if the methodology and legal provisions in the development of the internal audit activity are respected, etc.

Collaboration with internal audit from the viewpoint of an SAI is also supported by the legal framework in which the Court of Accounts operates since it is a legal obligation of the Court of Accounts to carry out an internal audit assessment according to ART. 42 of the law where it is stated that:

1. The Court of Accounts in the exercise of its powers, assesses the overall functioning of internal control and audit systems in audit entities. The Court of Accounts shall also have the following competences in the conduct of the powers and duties granted by the law to assess the own financial control activity and the internal audit activity of the examined legal entities;

2. To request and use, in order to enforce its control and audit functions, the reports of other bodies having competences in the field of internal audit.

3. The legal entities subjected to the control of the Court of Accounts shall submit to the latter, by the end of the 1st quarter, for the previous year, the report on the internal audit program unfolding and implementation.

4. The Court of Accounts shall develop the cooperation with the internal audit structures at the level of legal entities, to ensure complementarity and to enhance audit activity effectiveness.

The independence of the external audit is determined by the Law No. 94 of 8 September 1992, republished:

- ART.1, point 3, The Court of Accounts shall conduct its activity autonomously, in keeping with the provisions of the Constitution and of this law, and shall represent Romania in the international organizations of these institutions;

- ART.3, point 1, The Court of Accounts shall autonomously decide on its activity program.

The independence of the internal audit is set out in the Law No. 672 of December 19, 2002, republished:

- ART.3, point 1, the general objective of internal public audit in public entities is the improvement of the management thereof and can be reached mainly through: assurance activities, which represent objective analyses of the evidence, made in order to supply to the public entities an independent assessment of the risk management, control and governance processes;

- ART.12, point 1, the internal public audit department shall be created distinctly under direct subordination of the entity’s manager.

- ART. 21, point 1, the internal auditors must accomplish their attributions in an objective and independent manner, with professionalism and integrity, according to the provisions of the present law and according to the norms and specific procedures of the activity of public internal audit.

Likewise in INTOSAI Gov 9150 by INTOSAI should be necessary to be achieved one coordination and cooperation between Supreme Audit Institutions (SAIs) and internal auditors in the public sector - while respecting the distinctive functions and professional requirements of both. Although SAIs and internal auditors have differing and clearly defined roles, their collective purpose is to promote good governance through contributions to transparency and in accountability for the use of public resources, as well as to promote efficient, effective and economic public administration. Common areas of work performed by SAIs and internal auditors offer opportunities for coordination and cooperation. Through SAI and internal auditor coordination and cooperation, the efficiency and effectiveness of both part's work can be improved. A range of benefits may be obtained from coordination and cooperation between SAIs and internal auditors, including an exchange of ideas and knowledge and strengthening their mutual ability to promote good governance and accountability practices, and enhancing management understanding of the importance of internal control, but also the performance of more effective audits by:

- Promoting a clearer understanding of respective audit roles and requirements;
- Better informed dialogue on the risks facing the organisation leading to a more focused audit and consequently, more useful recommendations;
- Better understanding by both parties of the results arising from each other's work which may have an impact on their respective future work plans and programmes;
- Better coordinated internal and external audit activity resulting from coordinated planning and communication;
- Reducing the likelihood of unnecessary duplication of audit work (economy);
- Improving and maximizing audit coverage based on risk assessments and identified significant risks;
- Mutual support on audit recommendations which may enhance the effectiveness of audit services.

The INTOSAI GOV 9150 standard identifies the common benefits of internal and external auditing, as well as potential risks that may undermine its performance. INTOSAI's referral framework, in addition to the potential benefits and constraints it may have influenced, has developed as a reference point for the supreme audit institutions in the field of coordination and cooperation a framework based on four basic principles: commitment, communication, common understanding and confidence. The ways of cooperation suggested by the standards may vary depending on circumstances, including considerations of independence and legislative restrictions. Depending on these considerations, the modes of coordination and cooperation suggested by the INTOSAI standards Gov may include:

- Communication of audit planning/audit strategy (e.g. joint planning sessions);
- Regular meetings between SAIs and internal auditors;
- Arrangements for the sharing of information (including consultation procedures);

- Communication of audit reports to each other;
- Organizing common training programmes and courses, and sharing training material;
- Developing methodologies;
- Sharing training material, methodologies and audit work programs;
- Granting access to audit documentation;
- Secondment or lending of staff (e.g. training on the job);
- Use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed;
- Collaborating on certain audit procedures, such as collecting audit evidence or testing data.

Public auditing should have unrestricted access to information about the subject or issue audited. This is also ensured by internal and external auditing. According to ART.5 of Law, The Court of Accounts shall have unrestricted access to instruments, documents, information required to implement its powers and duties, as well as the internal auditors, ART.18 of Law, have access to all data and information, including those existing in electronic format, that they consider relevant to the purpose and the objectives mentioned in the service order. In addition to the legal specifications of both forms of audit, the principles where public auditors rely on are in coordination.

5. CONCLUSIONS AND RECOMMENDATIONS

The audit function has now taken extensive dimensions, including in its objectives not only the economic and financial, but also the social problem generated by the implementation of government activity, including, in particular, other types of audits focusing on the value for money governmental activities, performance auditing. In this context, the external audit through its work provides an assessment of the credibility of the reports, information obtained during audits by the auditors of the audited entities and positively influences the financial reporting of the audited entities, as well as their performance. On the other hand, the continued focus on institutional performance as an element of external accountability of directors has led the latter to focus more on internal audit procedures as an efficient way to deal with requirements external audit as well as to avoid adverse audit reports.

From the review of the legal framework of public audit in Romania, consisting of internal audit and external audit, we conclude that the relevant legal specifications create the appropriate spaces for the establishment and continuity of the interaction, in order to provide complete assurance on the functioning and activity of public institutions in Romania.

With the aim of providing a qualitative contribution and a common production impact on good governance and accountability for the benefit of taxpayers, the awareness and professional training of internal and external auditors, we suggest to carry out more joint training in order to elaborate methodologies and techniques of auditing to favor the use of each other's work. Referring to Standard 2050, Practice Advisory 2050 - 1 and INTOSAI Gov Standard 9150, the Central Harmonization Unit for Internal Public Audit should engage to identify the areas of development of common methodologies and techniques in the area of auditing for the implementation of standards, also highlight the opportunities to conduct piloted audits along with the Court of Accounts to test their accuracy in order to promote the use of each other's work.

We also suggest the establishment of a Working Group by the Court of Accounts and the Ministry of Public Finance, which has the object of its activity to propose, design and follow up a Training Plan in favor of increasing the reliability of the audit work everyone.

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