

THE REFERENCE FRAMEWORK AND DEVELOPMENT STAGES OF THE INTERNAL PUBLIC AUDIT IN THE CONTEXT OF IMPROVING FINANCIAL MANAGEMENT IN THE REPUBLIC OF MOLDOVA

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Abstract: This article describes the role and importance of the internal public audit in the Republic of Moldova, which has a direct impact on the correct management of public finances.

The internal public audit is an independent activity, which has the mission of carrying out a preventive control over the financial situation, by offering consultancy to public institutions in order to develop and improve its efficiency and effectiveness. As a result, public institutions require a hearing of the financial activity from the internal auditors who have the task of verifying and submitting recommendations regarding the improvement of the existing situation. Following the research of the internal public audit system in the Republic of Moldova, the authors highlight the role of public finance management that led to the improvement of the internal public audit.

At the same time, in order to appreciate the evolution of the development of the internal public audit system in the Republic of Moldova, in this work the authors tried to present some conceptual reflections on the internal audit activity, highlighting the stages of development in the Republic of Moldova, which contribute to the continuous modernization of public institutions regarding ensuring the management of public finances. This article will be useful for teachers, students and researchers in public administration bodies dealing with the sciences of public financial management and public internal audit.

Keywords: public finance management, internal audit, financial system, audit principles, audit mission, audit techniques, audit stages.

JEL Classification: H83, G32, Z18.

Introduction

Public finance management represents a system of principles, methods, tools, techniques through which public funds are managed and directed to ensure and fulfil strategic objectives efficiently and effectively.

The starting point of the reforms that were the basis for the development and improvement of this system was the imperfect and imperfect legislative and normative framework, fragmented budget methodology, non-

integrated accounting and reporting system, budget oriented towards inputs and not results, lack of control of internal audit in public institutions and others.

A fundamental tool in the modernization and improvement of the internal public audit in the Republic of Moldova is the "Management of Public Finances" project, which took place in the period 2006-2009, later, then extended until 2014, which was the basis of the consolidation of public finances and the provision of services high quality to society.

At the same time, in 2013 the Strategy for the Development of Public Finance Management was approved, which was the first public policy document in the Republic of Moldova that led to the improvement of the efficiency and effectiveness of public spending, fiscal discipline, internal public audit, debt sustainability and public finances in general.

Next, the Public Finance Management Development Strategy for the years 2023-2030 was developed and approved, a strategic document for the development of the public finance management system, which integrates the existing strategic framework specific to the components of public finance management, including the internal public audit, continuing the logical chain of reforms implemented or initiated recently¹.

Research methodology

Following the study, the authors resorted to the following methods: analysis and comparison of concepts and theoretical notions of internal public audit, formulating the notion from his point of view, analysis of elements, information and data from monographs, books and specialist materials in the field of public audit internally, presenting conclusions according to the study carried out.

Results and discussion

One of the main components of the "Public Finance Management" project was "Internal control and audit", which led to the development of an internal control and audit system in central and local public authorities that correspond to the norms and requirements of International Standards. The public finance reform ensured transparency and accuracy in the formation, distribution and use of public money.

Therefore, with the implementation of this public finance management system in the public sector, the "Control and internal audit" component was the essential basis for the development and evolution of the internal public audit procedure in the public sector.

The internal public audit was adjusted to the International Auditing Standards, which led to a methodological improvement regarding the performance of the internal public audit procedure according to a new methodological concept and modern organizational structure.

The development of internal audit in a contemporary society ensures the trust of the management of public institutions, by creating an organizational structure that performs an objective control regarding the correct and

¹ Decision of the Government of the Republic of Moldova no. 71 of February 22, 2023 regarding the approval of the Public Finance Management Development Strategy for the years 2023-2030

transparent management of financial resources within the entity, as well as the entire financial management system.

Internal audit is an independent activity, which has the task of carrying out a preventive control over the operations and providing consultancy to public institutions with the aim of improving their financial situation.

According to the provisions of the Explanatory Dictionary of the Romanian language, the term audit comes from the Latin "auditum" which means "listening". As an approach to listening, then investigating and suggesting solutions, the audit allows the input of a reasoned and independent reasoning. or professional examination of information for the purpose of expressing a responsible and independent opinion in relation to a particular standard².

The researchers of the Institute of Internal Auditors in the United States of America define the internal audit activity as follows: "Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve the operations of an organization, or helps an organization to fulfil the objectives through a systematic, disciplined approach in order to evaluate and improve the efficiency of risk management, control and governance processes".

A definition of the internal audit activity can be found in the Order on the approval of the National Internal Audit Standards No. 153 of September 12, 2018 published: 10-26-2018 in the Official Gazette No. 400-409 art. 1577, as it is an activity of a subdivision, teams of auditors, or other internal auditors that provide assurance and advice, independent and objective, intended to bring value to the public entity and improve its operations. The internal audit activity helps a public entity to achieve its objectives through a systematic and methodical approach that evaluates and improves the effectiveness of governance, risk management and control processes³.

The historical evolution knows several stages of audit development. Researchers in this field claim that auditing existed as early 500 before our era in Athens, where the three councils were responsible for verifying the city's income and expenses.

Other theorists specify that auditing has been practiced since ancient times, during the reign of Charlemagne or Edward I of England.

Auditing was practiced in the 18th century for external users, which were called external auditing. Until the beginning of the 18th century, the audit was ordered by emperors, kings, the church and the state and they were appointed from among the priests.

Gradually the role and necessity of internal audit increased more and more. At the end of the 19th century, the relationship between the auditors and the auditors chosen from professional accountants and lawyers became more and more evident.

Audit services also began to be used by internal users, especially by company leaders, who understood the benefits of auditing for the institution. Following these services, the management reported that the hearing

² . <https://dexonline.ro/definitie/audit/definitii>

³ Order of the Ministry of Finance no. 153 of September 12, 2018 regarding the approval of the National Internal Audit Standards

allows them to find out the real situation and obtain consultation with recommendations for improving the financial position. Their objectives were to certify the reality of the financial statements, with the aim of avoiding errors and frauds committed in their activity, as well as to identify new methods regarding the prevention of frauds.

In the first four decades of the 20th century, auditing was performed by auditing professionals alongside accountants and financiers.

On the international level, the centre of promoting the internal audit activity belongs to the Institute of Internal Auditors from the United States of America. Likewise, the European Confederation of Internal Audit Institutes (ECIIA) is considered an important European institution in the development and promotion of internal public audit.

The Association of Internal Auditors from Romania (AAIR) is a professional association and represents a debate forum for professionals in the field. The Association of Internal Auditors from the Republic of Moldova (AAIM) maintains collaborative relations with AAIR members by receiving and assigning useful information related to the field of activity and which are necessary for improving the professional performance of internal auditors.

The essential objective of the mentioned institutions consists in the promotion, support and professional development of internal auditors, by organizing various seminars, conferences related to the current problems of the profession. In the same way, training courses are organized, during which the theoretical and practical aspects of internal audit are discussed.

Regarding practical research of the internal public audit, we can mention the study carried out by Boța-Avram C. and Popa I., in the work "Internal audit performance measurement methods", where the authors focus on methods of measuring the effectiveness of internal audit work (Bota et. All, 2011).

The author Ghiță M. exposes the main features of the internal audit and the organization of the internal audit function within entities, which requires taking into account the following features: universality, independence and periodicity⁴.

Another study related to the role, functions and theorizations regarding the actuality, perspectives and particularities of the implementation and regulation of internal audit in the public sector, as well as the description of the planning stages of the internal audit mission is carried out by the authors (Iachimovschi, A., Cauș, L., Ratcov, M., 2014).

Systematizing the studies and opinions of the aforementioned researchers regarding the definition of internal public audit, the authors present their point of view on the notion of internal public audit.

The internal public audit is an independent activity that has the task of carrying out an objective and transparent audit mission with the aim of ensuring efficiency and improving the activity process of public institutions.

⁴ www.oeconomica.uab.ro/upload/lucrări/820061/10.pdf

The internal public audit is an activity carried out by auditors, which provides public institutions with an assurance that contributes to adding value to the financial situation, with the exposure of the problems detected in the audit mission.

The regulation of the internal public audit activity in the Republic of Moldova is carried out in accordance with the legislative and normative provisions in force as follows:

1. Law on internal public financial control no. 229 of September 23, 2010;
2. Government Decision no. 557 of November 19, 2019 regarding the approval of the Internal Auditor's Code of Ethics and the Internal Audit Charter;
3. Order of the Ministry of Finance no. 161 of December 17, 2020 regarding the approval of internal audit rules in the public sector;
4. Order of the Ministry of Finance no. 153 of September 12, 2018 regarding the approval of the National Internal Audit Standards;
5. Order of the Ministry of Finance no. 189 of November 5, 2015 regarding the approval of the National Internal Control Standards in the public sector.

The provisions of the aforementioned legislative and normative acts in the field of internal public audit help the public institution to achieve its goals and objectives, evaluating through a systematic and methodical approach it's organizational and control risk management processes.

The internal public audit activity is organized, as a rule, by the staff employed under the public institution. The basic task of the auditors consists in the correct and effective examination, evaluation and monitoring of accounting operations and the submission of recommendations to improve the financial situation.

The role of the auditor is to guide the manager with the practical approaches already developed through analyzes and evaluations, to provide assurances regarding the effective functionality of the public financial management system.

In order to achieve certain performances following the performance of the internal public audit mission, it is necessary to follow four stages of the audit mission as shown in table 1.

Table 1. Stages of the audit mission

Stages of the audit mission	Development of stages in the audit process
Strategic and annual planning	Risk assessment
	Assessment of resource needs
	Determination of annual priorities

	Identification of audit titles
Realization the audit mission	Audit mission planning
	Conduct of opening sessions
	Field work
	Development of preliminary findings and recommendations
	Conducting completion meetings in the field
Reporting the results of the audit mission	Elaboration of the project regarding the Audit Report <ul style="list-style-type: none"> • audit findings • audit recommendations • conclusions
	The response of the audited unit
	The response of the manager of the audited unit
	Elaboration of the action plan regarding the implementation of the recommendations
Monitoring the implementation of recommendations	Verbal information
	Questionnaire in written form
	Follow-up check
	Subsequent audit

Source: *Elaborated by the author*⁵.

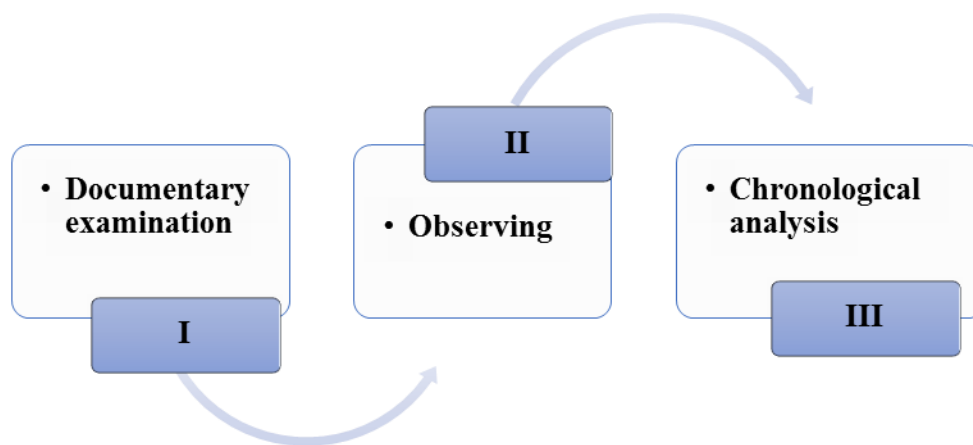
Of course, going through these stages, as presented in table 1., in turn, carries out several types of work, each of which has its own role that allows the audit team to achieve the probative evidence for the formulation of audit conclusions and recommendations.

Therefore, the audit mission requires going through several steps, such as: general knowledge of the enterprise, identification of significant areas and systems, risk analysis, drawing up the plan of the audit mission, drafting

⁵ Order of the Ministry of Finance no. 105 of 15 July 2013 regarding the approval of the Methodological Norms for internal audit in the public sector Official Gazette no. 206-211/1430 of 20.09.2013

the audit report, highlighting the audit findings, the conclusions and audit recommendations, as well as the development of the action plan regarding the implementation of the recommendations.

Auditors are not required to examine every transaction that exists in order to qualify it as audit evidence, but when describing an audit finding action, it must be justified by appropriate evidence. Without quality evidence, auditors cannot reach correct conclusions regarding the achievement of the objectives of the internal audit mission. The audit evidence must be convincing in order to reach concrete and objective conclusions and recommendations. During these phases, some techniques are used for the interpretation of internal public audit evidence as shown in figure 1.



Source: Elaborated by the author⁶.

Next we will decipher the role and importance of applying techniques for the interpretation of internal public audit evidence.

Documentary examination consists of the analysis of records, operations, processes and economic phenomena based on supporting accounting documentation with the aim of identifying the legality, reality, correctness, accuracy of records, documents, statements and others.

Observation is a technical procedure for comparing formal (official) processes and their application guidelines with the results obtained in reality.

Chronological analysis focuses on determining the sequence of events or actions and consists in reconstructing the causes of events or phenomena by extracting and analyzing findings from source documents.

The rapid evolution of the changes related to the techniques for the interpretation of internal public audit samples has brought great changes in the managerial activity of public institutions, because the purpose of

⁶ Operational Procedure. Conducting audit mission <https://usv.ro/calitate/pagini/proceduri/capi/PO-CAP-or%20de%20audit%2013.11.2018.pdf>. [online][accesat: 16.03.2024].

internal auditors is the responsibility for the verification and application of these stages and techniques of internal public audit according to the requirements and management rules prudent allocation of resources related to the improvement of public finance management in public entities in relation to the objectives and functions planned in the Strategic Plan.

Conclusions

According to the study carried out on the implementation of public audit activity in the public sector of the Republic of Moldova, the authors can state that the reform of public finance management in the public sector contributed significantly to the implementation of a new legislative and normative framework in the field of internal public audit, as well as to the formation by strengthening a modern internal public audit system, the audit process, and audit techniques that led to the increase in transparency and managerial responsibility of public institutions, by fulfilling the key objectives that ensure long-term economic growth and raising the standard of living of citizens.

As an examination, in order to carry out the study, the authors identified a series of benefits, such as: providing managers with effective support that helps them achieve the objective planned efficiently and effectively within the public institution, adapting to changes, assessing the degree of security and risks, ensuring the improvement and modernization of public institutions and its structures through opinions and recommendations, submitting proposals that offer the possibility of optimizing financial resources in public institutions; improving the quality of management, by offering consultations in the decision-making process, providing institutions with assurance by performing internal public audit procedures and others.

The significant actions of the specialized bodies undoubtedly contributed to the improvement of public finance management and the achievement of a high-performance internal audit control, but there are still some problems related to the fluctuation and lack of staff that the management of the Association of Internal Auditors reported in its report from the Republic of Moldova. In the same way, the problem with the improvement of the internal auditor prevails, who must have professional skills, detailed knowledge of the given field, be objective and independent, which can demonstrate to us quality and continuous improvement.

The expectations of the business environment and in general, of the beneficiaries of the internal audit reports, towards the auditors, are mainly related to the performance of quality internal audit missions, in order to provide pertinent assurances regarding the reality and correctness of the information contained in the financial-accounting reports (Balaceanu, Tilea, Zaharia, 2024).

The audit activity is carried out on the basis of the fundamental principles aligned with the International Standards, as well as the involvement of actions from specialized bodies, which led to the improvement of internal audit management through the methodical and systematic implementation of contemporary continuous financial management processes. Thus, the public institutions have achieved the planned goal and objectives, evaluating the control and governance risks, contributing to the achievement of the desired results, as well as increasing the value in their activity.

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