

STUDY ON THE EXERCISE AND CONDUCT OF AN INTERNAL REGULARITY AUDIT MISSION WITHIN AN EDUCATIONAL UNIT SUBORDINATE TO A MUNICIPAL MAYOR'S OFFICE

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ABSTRACT: *The role of the internal public audit department within the risk management process is to identify, analyze and evaluate the possible or inherent risks related to the audited activities/operations, trying by exercising various forms of internal control to limit/reduce the identified risks. Through the assurance missions carried out, auditors contribute to bringing to the attention of the heads of structures/entities the importance of the activity of identifying and managing risks at the level of the entities so that by establishing the risk tolerance accepted by the management and by applying the appropriate control instruments, they can reduce or eliminate the existing risk.*

KEY WORDS: *audit, mission, regularity, city hall, educational institution.*

JEL CLASSIFICATIONS: *B21, M42.*

1. INTRODUCTION

State pre-university education units are part of the school network of cities and municipalities. According to the legislation in force, they are subordinate to the Local Council, the mayor exercising the function of main credit authorizing officer. The educational structure is managed by a Board of Directors, designated by written decision of its president - the director of the institution, who also exercises the function of tertiary credit authorizing officer.

In accordance with the provisions of art. 9 letter. c of Law no. 672/2002 r, the internal audit activity at the level of the educational unit is carried out by the internal public audit department of the hierarchically superior unit, respectively the Internal

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Public Audit Department within the City Hall, provided that the subordinate educational institution does not have its own internal audit structure established.

Thus, according to the audit plan for 2022, registered under no. 39338/28.11.2021, the auditors from the Internal Audit Department of the City Hall, carried out, between 25.01.2023 and 24.02.2023, the audit mission with the theme: "Assuring the main authorizing officer of credits regarding compliance with the normative acts regulating the financial activity or with financial implications carried out at the level of the educational institution, the accounting system and its reliability".

The period subject to the audit mission was between 01.01.2021 and 30.09.2022, and the type of internal public audit mission was assurance/regularity.

2. PLANNING THE REGULARITY AUDIT MISSION

According to the provisions of the updated Education Law no. 1/2011, the educational unit is provided with financing through the local budget of the municipality:

Basic financing which is provided from the state budget, from amounts deducted from the value added tax, through local budgets, for the following expenditure items, according to which the standard cost per student/preschooler is calculated for:

- a) expenses for salaries, bonuses, allowances and other salary rights in money, established by law, as well as the contributions related to them;
- b) expenses for professional training;
- c) expenses for goods and services.

Complementary financing which is provided from the local budgets of the administrative-territorial units to which the pre-university educational units belong, in our case for:

- a) investments, capital repairs, consolidations;
- b) expenses for commuting of teachers and auxiliary teaching staff, according to the law.

According to art. 6 of Law no. 1/2011, the basic financing and the complementary financing were carried out based on the administrative-financial management contract concluded between the director of the pre-university education unit and the mayor of the municipality, following the approval of the BVC by the Local Council.

Since, through the Annual Internal Audit Plan, the Internal Audit Department planned to conduct a regularity audit mission at the subordinate education unit, the actions on the financial effects on public funds and public patrimony were examined, in terms of compliance with all the principles, procedural and methodological rules applicable to the audited structure

3. CONDUCTING THE REGULARITY OF THE INTERNAL AUDIT MISSION

The conduct of the internal audit mission involved completing the stages and procedures, as well as developing documents specific to the internal audit activity.

During the first stage - "Preparation of the internal audit mission", the auditors collected data and information necessary for conducting the internal audit mission and developed the documents required by the audit rules in force. The audit initiation procedure began with establishing the objectives of the mission. The team of auditors, together with the head of the audit structure in accordance with the objectives contained in the Audit Plan for 2023, established the audit objective.

The audit initiation procedure involved the preparation of the following documents authorizing the internal audit mission, namely:

Service order – represents the intervention mandate of the internal auditors' team. Based on it, the assurance mission is carried out and interested parties are informed about: the legal framework regarding the performance of the assurance mission; the purpose of the assurance mission and the type of internal audit; the objectives of the assurance mission; the period of performance of the assurance mission; the designation of the supervisor; the period subject to the audit; the names and surnames of the internal auditors designated to perform the assurance mission

Declarations of independence – The independence of the internal auditors designated to perform an assurance mission was declared by completing the aforementioned document. The document was also completed by the supervisor of the audit mission.

Notification regarding the initiation of the internal audit mission - The internal audit department notified the audited structure 15 calendar days before the date of initiation of the assurance mission, as provided for in the Internal Audit Plan. The notification regarding the initiation of the internal audit mission contains information regarding the purpose, objectives, duration of the mission, the documents to be made available by the audited structure, as well as information regarding the date of the opening meeting. The notification was sent to the audited structure accompanied by the Internal Audit Charter.

The opening meeting was held with the participation of internal auditors and the educational institution's staff, and allowed for discussions on the purpose of the assurance mission, the objectives and working methods for carrying out the assurance mission, as well as to establish contact persons during its implementation. The agenda of the opening meeting includes: presentation of the internal auditors/supervisor, as appropriate; presentation of the objectives of the assurance mission; communication of the terms for carrying out the assurance mission; establishment of the responsible persons from the audited structure for carrying out the assurance mission; presentation of the Internal Audit Charter, as appropriate; ensuring the working conditions necessary for carrying out the assurance mission. Minutes of the opening meeting - includes in the first part general information regarding the organization of the meeting and the participants, and in the second part a transcript of the discussions held.

In the information collection and processing procedure, the necessary documents were procured, reliable, pertinent and useful information was collected in order to carry out the risk analysis. As part of the information collection activity, the Acknowledgement Questionnaire was developed. In the information processing activity, the auditors proceeded to analyze the audited structure and its activity (organizational chart, organization and operation regulations, job descriptions,

document flow, etc.); analysis of the regulatory framework regulating the activity of the audited structure; analysis of factors likely to hinder the proper performance of the assurance mission; analysis of the results of previous controls; analysis of external information regarding the audited structure.

The information processing and documentation was completed by developing the Preliminary Study document. The purpose of the Preliminary Study was to ensure the obtaining of sufficient and adequate information about the auditable domain and will contain information at least regarding: general characterization of the audited structure; strategy and policies in the auditable domain; analysis of the auditable domain (processes, responsible persons, influencing factors, specific normative and methodological framework, risk management, etc.); objectives of the audited structure; analysis of the structure and training of personnel; quality assurance and policy for improving and developing the activities of the auditable domain; provision and availability of financial resources necessary to carry out the auditable activities; other information specific to the auditable domain; conclusions.

The risk analysis involved: identifying risks in the audited structure associated with the auditable domain and their assessment, assessing internal control and selecting the objectives of the internal public audit mission. The measurement of risks depends on the probability of their occurrence and the severity of the consequences, i.e. the impact of the risk, and uses risk assessment criteria as tools.

The auditors proceeded to identify the activities/actions and the associated risks, the following stages being completed:

- detailing for each objective of the assurance mission the activities in successive actions, describing the process from the initiation of the activity to its completion;
- defining the risks for each activity/action in particular.

The risk analysis criteria were established based on the impact and probability of the risk manifestation, being evaluated on a three-level scale as follows:

- assessment of probability which is carried out based on the analysis and evaluation of the established incidence factors;
- assessment of impact which is carried out based on the analysis and evaluation of the established risk factors.
- Following the risk analysis, the auditors developed the document Establishing the total risk score and ranking.
- Also at this stage, the auditors performed the initial assessment of internal control by completing the following steps:
 - determining the operating methods of each identified activity/action;
 - identifying existing internal controls, based on the Internal Control Questionnaire and the collected documents;
 - establishing the expected internal controls for each activity/action and identified risk;
 - establishing the compliance of internal control.

The initial assessment of internal control is carried out based on the Internal Control Questionnaire, as well as the documents existing in the permanent file and has

the role of identifying the existence of internal controls for each auditable activity/action.

The internal control questionnaire allows, through the questions formulated and the answers received, the identification of the internal control activities established by the management and the assessment of their functionality.

The initial assessment of internal control takes into account the risks associated with the auditable activities/actions and involves the identification and analysis of the internal controls implemented by the entity to manage these risks in order to discover any areas where there are signals that they do not exist, do not function or function inadequately. This synthetically presents the result of the initial assessment of internal control for each auditable activity/action. For the initial assessment of internal control, a 3-level scale was used, as follows: compliant internal control, partially compliant internal control and non-compliant internal control, as shown in Table 1, presented below:

Table 1. Internal control evaluation criteria

Internal control	Criteria
According	a) Appropriate procedures are developed that can prevent the materialization of risks. b) The management and staff of the audited structure are familiar with the regulatory framework of the audited activities. c) The management and staff of the audited structure have a positive attitude towards the implemented forms of control, with a concern to anticipate and eliminate the problems reported. d) Internal control is integrated into the current activities of the audited structure and does not represent a distinct activity or one that is carried out in parallel with them. e) The risk management process in the audited structure ensures the identification of risks, their assessment, the establishment of risk management measures and the monitoring of their effectiveness. f) The management systematically receives reports on the development of activities and the degree of achievement of objectives and orders corrective measures in case of deviations from objectives, etc.
Partially compliant	a) The procedures are not sufficient to prevent the materialization of risks. b) The management and staff of the audited structure are aware of the regulatory framework of the audited activities but do not apply it properly. c) The management and staff of the audited structure have a subjective attitude towards internal control, eliminating problems reported only by certain audit or control teams. d) Internal control is partially integrated into the current activities of the audited structure. e) The risk management process in the audited structure ensures the identification of risks, their assessment, but the risk management measures are not always adequate and effective. f) The management receives incomplete reports on the performance of activities and does not monitor the degree of achievement of objectives, etc.

Inconsistent	a) Procedures are missing, poorly used or poorly implemented. b) Management and staff of the audited entity are unaware of the regulatory framework of the internal/managerial control system. c) Management and staff of the audited entity are uncooperative or indifferent towards internal control. d) Internal control is perceived as a separate activity or one that is carried out in parallel with the entity's activities. e) The risk management process of the audited entity does not ensure the identification of risks, as adequate risk management measures have not been established. f) Management receives incomplete reports on the performance of activities and the degree of achievement of objectives, and the information contained therein is not reliable. The reports are not used in the decision-making process and corrective measures are not taken in case of deviations from objectives, etc.
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The result of the internal control assessment was materialized by developing the Initial Assessment of Internal Control and Determination of Activities to be Audited form, which includes the activities/actions selected, on a mandatory basis, for auditing, as follows:

- activities/actions with high-level risks, regardless of the result of the internal control assessment;
- activities/actions with medium-level risks and partially compliant or non-compliant internal controls;
- activities/actions with low risks and non-compliant internal controls.

Regarding the Planning of the Assurance Mission, the auditors proceeded to develop the Internal Audit Mission Program, which presents in detail the planning of the implementation of the assurance mission. The Internal Audit Mission Program aimed to:

- ensure the head of the internal audit department that all aspects related to the objectives of the assurance mission have been taken into account;
- ensure the implementation of all stages, activities/actions and the development of documents specific to the assurance mission;
- ensure the planning and distribution of tasks for the internal auditors.

In the second stage, "On-site intervention", the auditors proceeded to produce audit evidence on the basis of which they will formulate findings, recommendations and conclusions.

As an internal audit tool, the auditors developed Questionnaires - checklists, used to establish and evaluate the conditions that each auditable area must meet. The documents include a set of standard questions for each objective of the assurance mission and auditable activity/action regarding responsibilities, financial, technical and information means, as well as existing human resources.

In this stage, the auditors established for each test, the audit techniques and tools to be used, established the audit trail by identifying information flows, attributions and responsibilities, formulated the testing objectives, established the sampling method and determined the sample to be tested. They also proceeded to formulate findings and conclusions based on the processing of the information

obtained following the application of the techniques and the use of specific tools and the collected evidence. A total of 6 Checklists were developed.

The collection of audit evidence was carried out following the tests carried out in accordance with the Internal Audit Mission Program. The activities carried out contributed to obtaining the audit findings and justifying them with audit evidence. The tests were prepared on the objectives of the assurance mission and the auditable activities/actions and include the following: the objective of the test, the sampling method – if applicable, the description of the testing, findings and conclusions. Within the framework of the audit mission, a number of 4- Tests were prepared.

To clarify some aspects, the auditors requested the Chief Accountant - Relationship Note -. Regarding the deficiencies found, the auditors prepared a number of 4 Problem Identification and Analysis Sheets. Within these, the problems, findings, causes, consequences and recommendations of the auditors for remedying the deficiencies found were presented. The findings and recommendations made by the internal auditors were discussed during the on-site intervention with the representatives of the educational unit, who signed the problem identification and analysis sheets for acknowledgement.

Regarding the procedure for Reviewing working documents, the auditors proceeded to:

- establish the permanent audit file in the four sections A, B, C, D;
- establish the working documents file that includes copies of the supporting documents;
- review the working documents themselves to ensure that the working documents are prepared appropriately;
- retain and archive the audit file, given that the internal audit files are the property of the institution to which the internal audit department belongs, are confidential and must be kept until the recommendations are met, after which they are archived according to the legislation in force and kept for 10 years.

For this purpose, the auditors prepared the form Centralizing Note of Working Documents.

The closing meeting of the assurance mission was held with the aim of presenting the findings, recommendations and (preliminary) conclusions resulting from the testing. During the closing meeting, the internal auditors presented the findings, recommendations and (preliminary) conclusions to the representatives of the audited structure. The results of the meeting were recorded in the Minutes of the closing meeting.

In the third stage "Reporting the results of the internal audit mission", the auditors proceeded to prepare the Draft Internal Audit Report. The draft materializes the activity of the internal auditors and presents the general framework, objectives, findings, conclusions and recommendations made. When preparing the Draft Internal Audit Report, the following requirements must have been met:

- the findings belong to the scope and objectives of the assurance mission and are supported by appropriate audit evidence;
- the recommendations are consistent with the findings and determine the reduction of the risks faced by the audited entity/structure;

- the findings, recommendations and conclusions contained in the Draft Internal Audit Report are based on the questionnaires, interviews, tests, problem identification and analysis sheets and the forms for finding and reporting irregularities developed.

The draft of the internal audit report was sent to the educational unit by written address. According to the methodological norms, the educational unit was obliged to submit its views within a maximum of 15 calendar days from its receipt. The educational unit prepared the Recommendations Implementation Calendar, through which it established the actions it intends to take to implement the recommendations, as well as the deadlines and the persons responsible for this.

Since no views were formulated by the audited unit, on which it would be necessary to review the Draft Internal Audit Report, the auditors proceeded to prepare the Internal Public Audit Report.

The audit report was prepared based on the draft Internal Audit Report.

The Internal Audit Report was structured into three chapters: introduction, findings and recommendations and conclusions.

Chapter I. Introduction includes the identification data of the mission, the techniques and tools used and how it was completed.

Chapter II. Findings and recommendations include the findings, consequences and recommendations established by the FIAPs developed based on the testing in the order of the selected auditable objectives.

Chapter III. Conclusions includes the auditors' assessment of the internal audit mission carried out, structured on its objectives.

A copy of the Audit Report, endorsed by the head of the unit, was sent to the educational unit according to the Submission Address, together with the Implementation Calendar prepared by the audited structure - an integral part of the internal audit report.

The findings presented in the Audit Report were based on audit evidence obtained based on the tests performed recorded in the working documents prepared by the auditor and adopted by the management factors of the unit. The findings and recommendations formulated were appreciated by the participants as realistic and feasible.

In relation to the aspects presented, the team of auditors considers that the level of appreciation of the reliability of the financial accounting system, assessed at the level of the educational unit is that contained in Table 2:

Table 2. Auditors' level of appreciation

Objective	Appreciation		
	Functional	To be improved	Critical
Assessing the reliability of the financial accounting system		X	

In accordance with the legislation in force, the auditors proceeded to prepare the Summary of the Internal Audit Report.

In the fourth stage "Follow-up of recommendations", the auditors prepared the Recommendations Follow-up Sheet. At the established deadlines, the auditors follow up and verify the implementation of the recommendations based on the information notes sent by the educational unit regarding the stage of implementation of the recommendations in the audit report.

The internal audit mission carried out at the educational unit level was finalized by the Internal Audit Report, which includes findings and recommendations for improving the audited objective "Assessment of the reliability of the financial accounting system". The internal audit report was brought to the attention of the mayor of Câmpia Turzii municipality, who approved the performance of the audit mission, for approval. Following approval, a copy of this document was brought to the attention of the head of the audited educational unit. By reporting the results of the internal audit mission by the auditors to the highest level of management, they involve the management in solving the problems found.

4. CONCLUSION

Following the audit missions carried out at the level of the Territorial Administrative Unit, the audit contribution is generally represented by the improvement of the internal control system at the audited entities. Through the findings and recommendations formulated by the auditors, the chief credit authorizing officer is aware of the development of the activity in the audited entities/structures.

The audit missions carried out by the internal auditors within the Internal Public Audit Department contribute to the improvement of the activities carried out at the level of the institution and of the entities under the subordination, coordination or authority of the city hall by assessing the effectiveness of the internal control of the operations and information systems within the entity. This assessment covers the following aspects:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- protection of assets;
- compliance with laws, regulations and contracts.

The value of internal audit is represented by its capacity to improve the institution's internal control system.

The contribution of internal audit to improving internal control is achieved at the level of all audit missions performed, the following being established in these missions as general objectives:

- carrying out the duties of the audited entities/structures in conditions of regularity, effectiveness, economy and efficiency;
- compliance with the law and regulations in force;
- development and maintenance of systems for collecting, storing, processing, updating financial and management data and information, as well as of systems and procedures for adequate public information through periodic reports.

In the audit missions carried out, the internal audit evaluated the existing internal control system at the level of the audited entities, respectively by including as

audited objectives the following forms of internal control: hierarchical control, preventive financial control, management control, financial accounting control, administrative control, aiming to bring improvements in the organization and conduct of internal control through the recommendations formulated and adopted by the managers of the audited entities.

The internal public audit department within the City Hall contributes to improving the governance or management process by providing independent and objective assurance to the management of the audited entities and the main authorizing officer regarding the adequacy and effectiveness of the controls and audit missions carried out, finalized through recommendations adopted by them, by achieving the proposed objectives, risk management and responsible use of financial resources.

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