

ORGANIZING AN INTERNAL AUDIT MISSION WITHIN THE CITY HALLS OF CITIES WITH UNDER 15,000 INHABITANTS

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ABSTRACT: *The purpose of the mission is to present the internal audit activity carried out both at the level of the internal public audit structure within the ATU and at the level of the internal public audit structures within the entities subordinated or under its authority. The report is intended both for the ATU management, which can appreciate the result of the work of the internal public auditors, as well as for the UCAAPI and the Court of Accounts of Romania, being one of the main instruments for monitoring the internal public audit activity.*

KEY WORDS: *audit, public, documents, mission, recommendations.*

JEL CLASSIFICATIONS: *B21, M42.*

1. INTRODUCTION

The City Hall is a public institution organized as a functional structure with permanent activity, consisting of the Mayor, Deputy Mayor, City Secretary and the Mayor's Specialized Apparatus, which carries out the decisions of the local council and the Mayor's orders, solving the current problems of the local community.

The activity report presents the organization and conduct of the internal public audit activity at the ATU level.

This annual activity report presents the status of the organization and functioning of the internal audit structure as of December 31, 2023, both within the ATU and within the entities subordinated, under the authority or under the coordination of the ATU. It also presents the internal audit activity carried out by the audit structure within the ATU during 2023. This annual activity report was prepared within the internal audit structure within the ATU

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2. DOCUMENTS ANALYZED

- Documents related to the organization of the internal audit function Normative acts Ordinance no. 119 of August 31, 1999 (republished) on internal control and preventive financial control.
- Documents related to the planning of internal audit activity Annual audit plan /2023 and multi-annual audit plan 2021-2023.
- Documents related to the evaluation of internal audit activity In 2023, the internal audit activity within the ATU was not evaluated.
- Documents relating to the performance of internal audit missions Law 672 of December 19, 2002 (republished) on internal public audit, GD. NR.1086/2013 for the approval of the General Norms regarding the exercise of internal public audit activity, own norms regulating the organization and exercise of internal public audit activity within the ATU.
- Status of recommendations implemented by the audited structures
- Documents related to the implementation of advisory missions. No advisory mission was carried out in 2023.
- Documents related to the implementation of other actions Statements, reports and summaries prepared during 2023. Part II – Current situation of the internal public audit II.1. Establishment and functioning of the internal audit II.1.1. Establishment of the internal audit UAT has an established, functional audit structure with 1 occupied position. At the UAT level, the internal audit function is established at the department level. At the UAT level, there are 1 subordinate entities.

3. REPORTING OF THE INTERNAL PUBLIC AUDIT ACTIVITY

The internal public audit operates through its own structure within the ATU through the Internal Audit Department and is obliged to issue and communicate the annual activity report regarding the internal public audit function. The annual activity report has been issued and the information provided by it is included in the present report.

Independence of the internal public audit structure and the objectivity of the auditors

Independence is the attribute of the internal audit function while objectivity is the prerogative of the internal auditors. In order to maintain these attributes, certain criteria must be respected, such as:

- to maintain the independence of the internal public audit structure: the internal audit function must report directly to the senior management of the organization;
- the appointment and dismissal of the management of the internal audit function and of the internal auditors must be subject to the approval process, according to the law.
- to maintain the objectivity of the internal auditors.

Internal auditors should not be involved in the activities they may audit; Internal auditors should declare their independence in the internal audit and evaluation

missions performed. These aspects are found in the current legal basis, namely Law no. 672/2002, republished and GD no. 1086/2013.

Also, similar aspects are found in the international internal audit practice stipulated in the International Standards for the Professional Practice of Internal Auditing (IPPF) issued by the Institute of Internal Auditors (see Standards from 1100 to 1130).

At the level of the chief credit officer, the internal audit department has 1 auditor position that is directly subordinated to the Mayor. There is no delegation of duties in the sense of reporting to a level other than the Mayor. The form of communication with the management of the institution is both formal with written addresses and informal through periodic meetings. The most frequently used form is the informal one. The independence of the internal audit department is maintained.

No tasks outside the legal framework and the exercise of activities subject to audit are assigned. There was no case of involvement of the internal audit department in the exercise of auditable activities. During 2023, the institution's management did not involve the internal audit in the exercise of activities that are part of the auditable sphere. There is no management position of the internal audit department at the institution level.

In 2023, there were no cases of appointment or dismissal of the internal auditor. The appointment of the internal auditor was made on 24.12.2022 based on provision no. 584/2022, following the passing of the exam and the favorable opinion for the position of auditor.

4. OBJECTIVITY OF INTERNAL AUDITORS

At UAT in the reporting year 2023, the internal auditor was not involved in the exercise of auditable activities. Regarding the completion of the independence declaration, it was completed each time during the 5 audit missions carried out in 2023 and approved by the head of the institution. No problems were found following their completion.

5. ENSURING THE METHODOLOGICAL AND PROCEDURAL FRAMEWORK

The methodological and procedural framework related to the internal public audit activity refers to aspects that are likely to ensure the proper conduct of this activity, through the applicable methodologies and procedures, taking into account the application and compliance with the code of ethical conduct of the internal public auditor.

Regarding these aspects, the internal public audit activity has been regulated since 2003, in addition to the known primary legislation, and by OMFP no. 38/2003 for the approval of the General Norms regarding the exercise of the internal public audit activity.

In 2013, following the amendment and republishing of the Law on Internal Public Audit, Government Decision No. 1,086/2013 was issued to approve the General

Norms on the exercise of internal public audit activity. This brings a series of amendments and improvements to the old version of the general norms. Both versions of the general norms provided for the issuance of own internal public audit norms.

Regarding the procedures for activities within the internal public audit structure, these are also subject to the issuance of system or operational procedures, as appropriate.

The notion of procedure is used in this report in the sense given by OSGG no. 400/2015, as subsequently amended and supplemented. Given this, it is necessary for internal public audit structures to analyze and decide how many of the activities carried out must be procedural (i.e. to issue a written procedure for that activity). In this context, the degree of proceduralization may vary from one entity to another, depending on the professional judgment applied.

Also, for procedural activities, the degree of issuance of procedures will be determined. Naturally, the target is 100%, aiming to get as close as possible to this score

Issuance of own norms In accordance with GD. 1086/2013, the own methodological norms are developed by the superior hierarchical body. Within the UAT, the own internal public audit norms are approved no. 45762/UCAAPI/29.08.2020.

Issuance of written procedures specific to the internal public audit activity At the level of the main credit authorizing officer At the level of the internal public audit structure within the ATU, a number of 6 activities were identified.

Of these, it was established that a number of 6 activities are procedural, which represents approximately 100%. The activities established as procedural are the following:

- The activity of carrying out the assurance mission
- The planning activity
- The activity of carrying out the advisory mission
- The activity of carrying out the ad-hoc mission
- The activity of drawing up and updating the PAIC
- The activity of implementing the PAIC

Of the 6 procedural activities, 4 written procedures were issued, which represents a procedure issuance rate of approximately 67%. The internal audit department identified 6 procedural activities specific to the audit activity. These are

- Procedure regarding internal audit – carrying out internal audit missions – regularity audit
- Procedure regarding internal audit planning – risk assessment methodology for drawing up the internal audit plan
- Procedure regarding carrying out the advisory mission
- Procedure regarding carrying out ad-hoc audits, namely internal public audit missions, of an exceptional nature, not included in the internal public audit plan, at the disposal of the head of the public institution.

6. ENSURING AND IMPROVING THE QUALITY OF INTERNAL AUDIT ACTIVITY

Development and updating of the Quality Assurance and Improvement Program (QAIP) In accordance with the provisions of point 2.3.7. of Annex No. 1 to GD No. 1086/2020, a quality assurance and improvement program (QAIP) is developed at the level of the internal public audit structure in all aspects of internal audit, which allows for continuous control of its effectiveness. The quality assurance and improvement program for internal audit activity must guarantee that the internal audit activity is carried out in accordance with the rules, instructions and the Code of Ethics for Internal Auditors and contribute to improving the activity of the internal public audit structure.

An IAP should help to express conclusions about the quality of the internal audit activity and lead to recommendations for the implementation of appropriate improvements to this activity. This program should allow for an assessment of:

- compliance with the legal basis in force;
- the contribution of internal audit to the governance, risk management and control processes of the organization;
- full coverage of the auditable sphere;
- compliance with laws, regulations and procedures that the internal audit activity must comply with;
- risks that affect the functioning of internal audit.

The PAIC should require a systematic and disciplined approach to the periodic self-assessment process, including the manner in which periodic self-assessments are conducted for each interim year between external assessments.

A fully functional PAIC exercises ongoing monitoring of the internal audit activity and periodic self-assessment of it to ensure compliance with the applicable legal and procedural framework. Through this process, the external assessment should effectively become an opportunity to obtain new ideas from the assessor or assessment team on ways to improve the overall quality of internal audit, efficiency and effectiveness.

Conducting an external assessment In addition to the PAIC, the quality of the internal audit function can be improved through external assessments. These assessments must be conducted every five years, according to the requirements of national legislation, but also to the international internal audit standards issued by the Institute of Internal Auditors (IIA).

The objective of the external evaluation is to evaluate the internal audit activity from the point of view of compliance with the definition of internal audit, with the requirements of the code of ethics and with the provisions of national legislation in the field. External evaluations may also focus on identifying opportunities for improving the internal audit function, providing suggestions to improve the effectiveness of this activity and promoting ideas to enhance the image and credibility of the internal audit function. In 2023, the activity of the internal audit department within the ATU was not externally evaluated.

7. HUMAN RESOURCES ALLOCATED TO THE INTERNAL AUDIT STRUCTURE

At a time when there is increased emphasis on organizational accountability, improving internal control, risk management and corporate governance, increasing emphasis should also be placed on internal audit structures. In order to achieve its objectives, it is important that the internal audit structure has access to human resources that possess the necessary skills for this purpose.

At the level of the chief authorizing officer, as of December 31, 2023, the public internal audit structure had a number of 0 management positions allocated, of which 0 positions were occupied and 0 positions were vacant.

In terms of execution positions, as of December 31, 2023, the internal public audit structure had a number of 1 positions allocated, of which 1 occupied positions and 0 vacant positions. - Art. 2(f) of Law no. 672/2002, republished specifies that an internal public audit structure may be established with a minimum of 2 full-time positions.

Therefore, any internal public audit structure should comply with this legal provision, having a minimum of 2 full-time positions allocated. The entire internal public audit methodology specified in GD no. 1086/2013, refers to the existence of an internal public audit team that must include a mission supervisor.

Therefore, any public internal audit structure should comply with these requirements, needing at least 2 full-time positions that are also occupied. Staff turnover has a negative impact when, through the departure of employees, both special skills and experience are lost.

A public institution that has a high turnover rate loses due to reduced staff effectiveness, increased training time for new employees and time spent on their selection, as well as indirect costs (loss of employees who have accumulated a range of knowledge within the organization).

Staff structure and professional training

The following criteria were taken into account when analyzing the staff structure: experience in internal audit, field of specialized studies, foreign languages spoken, national and international certifications held, as well as membership in national and international professional organizations. All these elements, along with the professional training of the staff, contribute to a qualitative analysis of human resources, an extremely important factor in carrying out the internal public audit activity.

The internal auditor was appointed to the position on 24.12.2022. He is a senior employee with specialized economic studies.

8. ENSURING CONTINUOUS PROFESSIONAL DEVELOPMENT

At the level of the main credit authorizing officer At the level of the ATU, the degree of participation in professional training is 100%. The average number of days of professional training for each person is 25, being achieved as follows: - 0 days through

training courses; - 20 days through individual study; - 5 days through other forms of training, at audit departments of public institutions in the area.

Analysis of the adequacy of the size of the internal audit department According to art. 3(2) of Law no. 672/2002, the scope of public internal audit includes all activities carried out within public entities to achieve their objectives, including the assessment of the management control system. According to the provisions of art. 15(1) of Law no. 672/2002, public internal audit is exercised over all activities carried out within a public entity, including the activities of subordinate entities, under the coordination or authority of other public entities.

According to the provisions of art. 15(2) of Law no. 672/2002, the internal public audit structure audits, at least once every 3 years, but not limited to, the following:

- a) the financial activities or those with financial implications carried out by the public entity from the moment of the establishment of commitments until the use of funds by the final beneficiaries, including funds from external financing;
- b) the payments assumed through budgetary and legal commitments, including from community funds;
- c) the management of the assets, as well as the sale, pledge, concession or rental of goods from the private domain of the state or of the administrative-territorial units;
- d) the concession or rental of goods from the public domain of the state or of the administrative-territorial units;
- e) the establishment of public revenues, respectively the method of authorizing and establishing debt securities, as well as the facilities granted for their collection;
- f) the allocation of budgetary credits;
- g) the accounting system and its reliability;
- h) the decision-making system;
- i) the management and control systems, as well as the risks associated with such systems;
- j) information systems.

From the cumulative interpretation of the above-mentioned articles of law, it follows that the auditable scope must be fully covered within a period of three years, depending on the risks associated with the activities. Thus, the internal audit structure must be organized so as to have the necessary resources to audit, within a period of three years, based on risk analysis, all the activities carried out by the public entity.

The head of the internal public audit department is responsible for organizing and carrying out internal public audit activities and ensures the necessary resources for the efficient fulfillment of the annual internal public audit plan." and taking into account the provisions of art. 12(4) of Law no. 672/2002(R).

The internal public audit department is sized, in terms of number of auditors, based on the volume of activity and the size of the associated risks, so as to ensure the auditing of the activities included in the scope of internal public audit", it results that the establishment of the necessary resources of the internal public audit structure (sizing the structure) can be achieved within the annual and multi-annual planning process, where the auditable scope, the risks associated with it and the necessary resources are analyzed. At the ATU level, given the existing staff resource, namely a

number of 1 occupied positions, the coverage of the auditable scope in 3 years is 100%. In order to comply with the legal provisions and fully cover (100%) the auditable scope in a period of three years, the internal audit structure would need a total number of 1 occupied internal auditor positions for the supervisor position.

9. PLANNING THE INTERNAL AUDIT ACTIVITY

Planning is the activity through which the tasks to be performed over a certain period of time are agreed with the resources available to perform these tasks. Regarding the public internal audit function, the planning activity is carried out multiannually, over a period of 3 years, but also annually. The calculation and distribution of resources is carried out only over the shorter time horizon (1 year). The first step in carrying out planning is to identify the auditable scope, which is composed of all the activities or structures that carry out their activity within the public entity.

Planning is based on the assessment of risks related to the activities carried out within the public entity and the prioritization of these activities according to the risk score. This risk score is what will determine the moment when the respective activity will be audited by the internal public audit structure. Given that the risks associated with the activities are generated by the economic and social environment in which the activity is carried out, there is a need for the risks to be reassessed periodically, in order to be followed in their dynamics. In this context, the multi-annual internal public audit plan must be updated annually, and this must be the basis for the development of the annual internal public audit plan. Also, in order to carry out a substantiated risk analysis but also to reduce the degree of subjectivity of the risk analysis, we consider it necessary to use well-defined risk analysis criteria, with an explanation of the effective way of carrying out the risk analysis and establishing the risk score.

The draft of the multi-annual plan, respectively the draft of the annual plan of internal public audit is developed by the internal public audit department, based on the assessment of the risk associated with various structures, activities, programs/projects or operations, as well as by taking over the suggestions of the head of the public entity, by consulting with hierarchically superior public entities, taking into account the recommendations of the Court of Accounts of Romania and the bodies of the European Commission, activities that consistently present high risks must be subject to audit, as a rule, annually.

At the level of the ATU, the 2023-2025 multi-annual plan was developed, which includes all the activities of the institution subject to audit, with the number 1/CAI/12.01.2023. The identification of activities and their prioritization in the plan is done by carefully selecting activities from auditable areas with high risk based on the analysis of the risks associated with these activities.

The activities have been selected as being within the auditable scope of the institution's ROF. It is important to plan audits for major risks, and for minor ones to a lesser extent. The signal criteria represent a starting point in planning audit missions.

The audit planning activity has the following characteristics: rationality, anticipation and coordination. The draft multi-annual plan for the period 2024-2025 was developed, registered under number 75/CAI/ 27.11.2023. Annually, the Internal

Audit Department develops the draft internal audit plan, in a manner that ensures that the missions will be carried out in a cost-effective, efficient, effective and within the agreed deadlines. The internal audit activity is a planned activity, a process that is carried out based on the analysis of the risks associated with the activities and is intended to add value to the audited structure. The audit plan is a tool through which the progress made is monitored and both the quality and professionalism of the audit activity are promoted. The annual audit plan was approved by the institution's management, respecting the standard structure.

The development of the annual internal public audit plan was carried out by going through the following stages:

- a) identifying the processes/activities/structures/programs carried out within the ATU and included in the scope of internal public audit
- b) establishing the risk analysis criteria
- c) determining the total risk score for each process/activity/structure/program and ranking them
- d) establishing the method of inclusion/distribution of internal public audit missions in the plan e) preparing the draft annual plan 2023.

The audit missions included in the audit plan for 2023 are regular in nature and are 5 in number. The areas addressed in the audit missions carried out in 2023 were the financial accounting field, human resources, civil status, urban planning and the agricultural register. Regarding the degree of fulfillment of the planned activities, this was fully achieved. The activities planned for 2023 have improved the management of the institution. At the ATU level, an operational procedure was developed regarding the multi-annual and annual planning activity, and this planning is carried out taking into account the activities within the entity.

10. CARRYING OUT ASSURANCE MISSIONS

At the ATU level, a number of 5 assurance missions were carried out in 2023. Given that an assurance mission can address several areas, the assurance missions were carried out in the following areas:

- 1 assurance mission addressed the financial-accounting field;
- 1 assurance mission addressed the human resources field;
- 3 assurance missions addressed the entity-specific functions field.

The main findings and recommendations resulting from the performance of these missions were recorded in the audit reports.

During the internal audit missions carried out during 2023, a number of 0 irregularities were found. Unappropriated recommendations represent the recommendations that were included in the final internal audit report, but for which the head of the public entity did not give his/her opinion in accordance with the provisions of point 6.6.6. of GD no. 1086/2013. In accordance with the applicable legislation in force, these recommendations must be brought to the attention of UCAAPI, together with the consequences of their non-implementation. There were no cases of unappropriated recommendations. Regarding the follow-up of the implementation of the recommendations, this activity refers to the recommendations made by the internal

audit structure within the assurance missions of previous years, and for which the internal audit structure is obliged to follow up on the implementation.

11. CONCLUSION

In 2023, the share of audits in areas specific to the activities carried out by the ATU increased significantly.

Given the maturation of the control environment within public entities, in 2023 the work of auditors shifted from the analysis of distinct operations to an in-depth evaluation of processes/activities viewed as a system and the formulation of recommendations for improving the control tools attached to them.

At the same time, the approach to regularity issues continued, resulting in the elimination to a greater extent of risks regarding the legality of the use of public resources and the protection of heritage. The implementation of the annual audit plan for 2023 as well as the high degree of implementation of the recommendations made. Several operational procedures were drawn up on the recommendation of the auditor. The implementation of the revision of the internal managerial control standards was pursued during 2023. In conclusion, we can say that within the institution there is communication on all channels between the structures subject to audit and the internal audit department.

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