

## THE SUPREME AUDIT INSTITUTION

Diana Elena BRÎNZĂ<sup>1</sup>, Mihaela Iuliana DUMITRU<sup>2</sup>

Faculty of Economics and Law, University of Pitești, Romania, [diana.brinza@upit.ro](mailto:diana.brinza@upit.ro)  
Faculty of Economics and Law, University of Pitești, Romania, [mihaela.dumitru@upit.ro](mailto:mihaela.dumitru@upit.ro)

***Abstract:** The work aims to present the internal audit activity at the level of public institutions, its scope and main objectives. On the other hand, it highlights the general methodology applicable to any internal audit mission. The pages of this Article show special features of the Supreme Audit Institution, the Court of Auditors, in the case of four EU Member States: France, Germany, Italy and Romania. For each individual State we have given information on the audited entities, the governing body, the organizational structure, the reports issued and the statement on the mission of the Court of Auditors.*

**Keywords:** internal audit, audit mission, audit report, supreme audit institution.

**JEL Classification Codes:** M42.

### 1. INTRODUCTION

Internal audit plays a very important role in achieving the objectives of public organizations while increasing resource efficiency, effectiveness and economy.

EU SAIs are independent public bodies. Their independence from the legislature, executive and judiciary is enshrined in the constitution. Depending on their mandate, SAIs may conduct ex ante or ex post checks, to assess the legality and regularity of revenue and expenditure, as well as the economy, efficiency, and effectiveness of policies, programmes and measures, or the functioning of the public administration. Some SAIs also evaluate the impact of public policies and programmes (Public Audit in the European Union, 2019, p.9).

### 2. LITERATURE REVIEW

The internal audit includes the examination and assessment of the adequacy and effectiveness of an organization's internal control system and the quality of the performance of the tasks assigned to each employee (Arens and Loebbecke, 2003, p. 904, quoted in Macarie and Moldovan, 2017, p. 15).

Voiculescu (2016) considers that "the revised definition of internal audit focuses on the objective of internal audit, which is to add value to the organization and activation of the improvement of its activities through the foreseen objective insurance and consultancy services". The lack of adequate internal public audit or its only formal implementation in Romania, without having the capacity to identify in advance the risks to public institutions, can be one of the factors that have facilitated the most recent financial crisis (Oțetea, Tița and Ungureanu, 2013) and prolonged its effects.



But also internal public auditors need to recognize that "they can no longer maintain their current status if they continue to stay within the comfort zone and provide the audit committee with information and views based on the traditional internal audit approach.

The challenge of internal audit is to achieve a unanimous confirmation of the need to extend the current role of internal audit while maintaining an appropriate level of performance. In order to expand the current role and improve the way in which the future auditors are working, they have to develop their current capabilities and processes" (Fülöp and Szekely, 2017, p. 447).

SAIs (Supreme Audit Institutions) independently investigate the efficient, effective and economic use of public resources as well as the compliance of public spending and revenue collection with the applicable rules. They support parliamentary control of governments with their fact-based, objective and impartial audit reports, and thereby help to improve policies, programmes, public administration and the management of their state's finances. This helps to build citizens' trust in our societies' checks and balances and further develop democracies that function properly (Public Audit in the European Union, 2019, p. 5).

EU SAIs play a central role in the public accountability process. As the external auditors of the executive, they assess the extent to which the government's policies and spending achieve the intended objectives, check public financial management and report on the accounts of public bodies, thus providing independent information and assurance to parliaments.

Although their audits focus primarily on ministries and governmental bodies, audited entities can also include state-owned enterprises, such as broadcasting corporations, institutes for higher education, or national banks.

Most SAIs are entitled to audit all public revenue and spending, including any at the level of private companies or individual beneficiaries.

There is a close cooperation between the Supreme Audit institutions of the EU Member States and the European Court of Auditors. It takes place in the Contact Committee, which is composed of the Heads of the Supreme Audit institutions of the EU Member States and the President of the European Court of Auditors. The EU Contact Committee can set up working groups and task forces on specific EU audit topics and provide an active network of professional contacts between staff of the EU's supreme audit institutions. All the Supreme Audit institutions in the EU are members of INTOSAI and EUROSAI.

### **3. DATABASE AND METHODOLOGY**

Scientific instruments belonging to qualitative research methods were used to carry out this study: documentation, observation, analysis of documents, comparative interpretation of information, synthesis.

The main aim of the research is to highlight the main objectives of internal audit, the scope, the stages of the audit engagement methodology and the identification of the specificities of the Supreme Internal Audit Institution, the Court of Auditors, for the following EU Member States: France, Germany, Italy and Romania. The documents on which the research is based are the guides on Supreme Audit institutions in the European Union and its Member States issued by the European Court of Auditors.

### **4. RESULTS AND DISCUSSION**

Internal audit helps the public institution achieve its objectives by assessing through a systematic and methodical approach its risk management, control, management processes, making proposals to strengthen their effectiveness.

The objectives of internal audit are to assess and improve risk management, control, governance processes and quality levels achieved in the performance of duties, with the aim of (Voinea, 2016, p. 13):

- to provide reasonable assurance that it operates as intended, leading to the achievement of the objectives and objectives proposed;
- to make recommendations to help improve operation the activities of the credit institution in an efficient and effective manner

Internal audit helps the head of the public institution identify and assess significant risks and contributes to the improvement of risk management systems, whose effectiveness it oversees and assesses.

The scope of internal public audit covers all activities carried out within a public institution to achieve its objectives, including the assessment of the internal/management control system.

The Head of the Internal public Audit capability shall be responsible for planning and conducting the internal public audit mission and for ensuring the necessary resources to carry it out. The entire work of internal auditors should be carried out in accordance with the methodological rules specific to the internal public audit compartment and the principles of the Internal auditor's Code of ethical Conduct.

The methodology for carrying out internal public audit missions shall include the following steps:

- The preparation of the internal public audit mission
- Intervention on the spot
- Reporting the results of the banking audit mission
- Follow-up of recommendations

The following are features of the Supreme Audit Institution, the Court of Auditors, for four EU Member States.

#### **FRANCE *COUR DE COMPTES***

The institution was initially set up in 1319 and has been in operation since 1807.

**Mission statement:** The activities of this institution are guided by the following values: independence, college of members, adversarial procedure.

The French national Court of Accounts (CDC), supported by the 17 regional and territorial chambers (Chambres Régionales et Territoriales des Comptes – CRTCs), is responsible for:

- judgments on public accounts;
- compliance and performance audits on all public organisations and public funds or their equivalent;
- certification of State and Social Security accounts;
- evaluation of public policies.

#### **AUDITED ENTITIES**

The French national Court of Accounts and audit:

- all State management and accounts; the accounts of the Presidency of the Republic, National Assembly, Senate; the ministries (central administrations, departments with responsibilities at national level and decentralised departments); government agencies and their territorial network and publicly owned enterprises;
- social security management and accounts;
- management and accounts from local authorities (from regional to municipal levels) and their agencies, public hospitals, secondary schools etc;
- public funds granted to private entities;

- funds used by charities if they are donated through public campaigns;
- funds used by private entities, if such funds come from private, tax-exempted grants.

The supreme audit institution shall be independent of the French Government and the national parliament, keeping the distance from both institutions. The first President of the Court of Auditors shall also be the President : – of the Court of budgetary and financial discipline (Cour de discipline budgétaire et financière – CDBF); – The High Council on public Finance (Haut Conseil des finances publiques – HPCP); – The Board for compulsory contributions (Conseil des prélèvements obligatoires – CPO).

## **GOVERNING BODY**

The French national Court of Accounts is governed by a College consisting of the First President and the six presidents of chambers. The Prosecutor General (who is independent) attends the meetings of the College. The CRTCs (Chambres Régionales et Territoriales des Comptes) are headed by Presidents, who are members of the French national Court of Accounts. The High Council of the CRTCs is chaired by the First President.

## **ORGANISATIONAL STRUCTURE**

The French national Court of Accounts is organised into six chambers per sector, a department for strategic planning and publishing, and the secretariat general. The Prosecutor General, the Attorneys General, and the regional financial prosecutors are independent of the French national Court of Accounts, and the CRTCs and act as public prosecutor.

## **REPORTS**

The CDC publishes: – a General annual report on 15 to 20 issues, which is also issued to the President of the Republic; – an annual report on the Execution of State budget and results for the previous year; – an annual Certification of State accounts for the previous year; – an annual assessment of the public finance situation and prospects for the current year; – an annual report on the Execution of budget and annual certification of Social Security system accounts for the previous year; – an annual report on local public finances for the previous year; – five to ten thematic reports each year; – all reports on the use of private grants by charity organisations; and all main reports sent to the Government (referred to a Minister).

The CRTCs publish: – management reports to local authorities; and some reports within the CDC's General annual report.

## **GERMANY *Bundesrechnungshof***

The institution was initially set up in 1714 and has been in operation since 1950.

**Mission statement:** The fundamental principles underlying the German SAIs work are independence, neutrality, objectivity and credibility. The purpose of its work is to enhance the transparency, efficiency and sustainability of government action.

## **AUDITED ENTITIES**

The German SAI audits all federal revenues and expenditures, as well as representational funds and classified military expenditure (expenditure on arms and intellectual property) and determines whether the federal budget has been managed properly and efficiently. It has full rights of access to any body and any information it requires for its audit work, including non-federal entities where these manage federal funds.

This institution has access to any institution or body managing federal funds, e.g.:

- government ministries and their subordinate bodies;
- state agencies;
- social security institutions;
- public enterprises;
- federal grantees;
- administrative units of constitutional bodies.

## **GOVERNING BODY**

Decisions relating to audit work are made at the level of the audit divisions by collegiate bodies, which comprise the Members of the SAI, i.e. a senior audit director and an audit director, and in some cases also the President or the Vice-President. Members of the German SAI enjoy judicial independence. Certain types of overall decisions, e.g. on items related to the annual report, are reserved to the Senate. The Senate is the supreme decision-making body.

## **AUDIT METHODS**

The German SAI carries out performance, compliance and financial audits, both *ex post* and in real-time, and provides pro-active advice. It determines the timing and nature of its audit work independently and may carry out fieldwork. Performance audits are a key task, and these are typically combined with compliance or financial audit elements in a comprehensive audit. The German SAI uses sustainability as an additional strategic audit criterion.

## **REPORTS**

This institution issues: – management letters with audit findings, which it sends to the audited bodies for comment; – an annual report composed of a principal volume (I) and a supplementary volume (II). First volume is published in autumn each year and second volume in spring of the following year. Taken together they form an up-to-date basis for the parliamentary discharge procedure: advisory reports and special purpose reports.

## **ITALY CORTE DEI CONTI**

The institution was initially set up in 1862 and has been in operation since 1948.

**Mission statement:** According to Article 100 of the Italian Constitution, the Corte dei conti exercises preventive control over the legitimacy of Government measures and also *ex-post* auditing of the administration of the State Budget. It participates, in the cases and ways established by law, in auditing the financial management of the entities receiving regular budgetary support from the State. It reports directly to Parliament on the results of audits performed.

## **AUDITED ENTITIES**

The Corte dei Conti audits :

- ministries;
- public authorities and state agencies, including independent authorities;
- public funded bodies;
- regions, provinces, municipalities, metropolitan cities and the undertakings which are in-house service providers; and
- private companies where the Italian state holds control.

## **GOVERNING BODY**

The Council of the Presidency of the Corte dei Conti is composed by eleven members: the President and the Deputy President of the Corte dei conti, the General Prosecutor of the Cdc (Corte

dei conti), four members appointed by the Parliament and four magistrates of the Cdc. The four magistrates are appointed by and from among the Cdc's magistrates. The external members are appointed by the Chamber of Deputies (2) and the Senate (2) from among professors of law and/or lawyers with at least a 20-years' experience.

### **AUDIT METHODS**

The Corte dei conti carries out:

- a compliance ex ante audit concerning acts that are exhaustively stipulated by law, with the aim of avoiding illegitimate action by the Government;
- a performance audit, aimed at increasing the efficiency of the administration; and
- financial-economic audits.

The Corte dei conti auditees have the right to respond to all findings before the final report is published.

### **REPORTS**

The supreme audit institution informs the Parliament by means of: state annual reports; four-monthly reports on the expenditure laws (the cost involved in the laws); special hearings in which the Cdc presents its opinion on the Government's economic and financial planning and on its financial bill; and specific reports on regional and local financing; a report on the coordination of public finance (annual); reports on public labour cost; reports on the management of EU funds; and reports on the management of public bodies and entities.

### **ROMANIA** The Romanian Court of Accounts (*Curtea de conturi a României*)

The institution was initially set up in 1864 and has been in operation since 1992.

**Mission statement:** To audit the establishment, management and use of state and public sector financial resources, to provide the Parliament and the administrative-territorial units with reports on the use and administration of those resources in accordance with the principles of legality, regularity, economy, efficiency and effectiveness.

### **AUDITED ENTITIES**

The Romanian Court of Accounts audits:

- the state and the administrative-territorial units;
- the National Bank of Romania;
- autonomous public enterprises (autonomous regies);
- commercial companies where the state, the administrative and territorial units, the public institutions or the autonomous administrations hold, individually or jointly, a majority share;
- social insurance or other autonomous bodies that manage public assets, wealth or funds;
- legal entities which receive government guarantees for credits, or subsidies, or other state financial assistance from central and local public administration or other public institutions.

### **GOVERNING BODY**

The Romanian Court of Accounts is governed by a plenum. The Plenum of the Romanian Court of Accounts has 18 members, appointed by the Parliament in accordance with the law, who are known as Counsellors of Accounts. The management of the Romanian Court of Accounts is enforced by the plenum of the Romanian Court of Accounts. The executive management of the

Romanian Court of Accounts is carried out by the President, assisted by two Vice-Presidents, who are also Counsellors of Accounts.

Members are appointed by the Parliament, independent in conducting their mandate, and are irremovable. They are state dignitaries and are subject to the same legal constraints as judges. The Members of the Romanian Court of Accounts are not entitled to be members of political parties or carry out public activities of any political nature during their term of office.

## AUDIT METHODS

The audit missions carried out by the Romanian Court of Accounts take the form of :

- financial audits of execution accounts; – performance audits; – compliance audits; –
- external public audits of community funds. Audits are performed in accordance with the standards of the Romanian Court of Accounts, developed on the basis of INTOSAI Standards (ISSAIs) and based on internal regulations, manuals and guidelines developed in accordance with ISSAIs, adapted to the specific framework of the Romanian Court of Accounts.

## REPORTS

The Court of Accounts of Romania issues the following reports:

- **The Annual Public Report** is the most important and visible document, maintaining the credibility and reputation of the Romanian Court of Accounts in relation to its main stakeholders, as a synthesis of its principal audit activities and most important findings. In the Annual Activity Reports the Romanian Court of Accounts makes public its strategy, mandate, responsibilities, mission and relationships with various stakeholders, including Parliament and the Executive, so that all interested parties can get a more accurate image of the place and the role of the Romanian Court of Accounts within the fundamental institutions of the Romanian state. The Romanian Court of Accounts Annual Activity Report mainly contains data and information on its organisation, activities and results obtained, international activity and its human and financial resources for the reference year.
- **Annual Reports on local public finances** submitted by County Chambers of Accounts and by the public authorities of the administrative-regional units;
- **Specific Reports** (reports requested by either house of the Romanian Parliament and reports on specific areas).

## 5. CONCLUSIONS

The importance of internal public audit is reflected in the fact that this function must not only remain a means of verification of compliance, but must be positioned in such a way as to add value to the credit institution by improving performance at the level of departments where critical risks could affect the achievement of specific objectives.

According to a survey conducted by KPMG (2019) among internal auditors in Romania, the cornerstone of sound corporate governance, an effective internal audit function provides undeniable benefits to credit institutions, such as:

- provides a means of monitoring and improving the internal control environment of the credit institution;
- provides independent reports to the Management Board;
- focuses on the risks and issues most important to the credit institution, as instructed by the Management Board;

- provides valuable information on a wide range of risks to credit institutions, including financial, operational, technological, strategic, fraud and compliance risks;
- improves internal controls by reducing risks, increasing efficiency and effectiveness and/or ensuring compliance with regulatory requirements;
- provides recommendations to increase the efficiency and effectiveness of operational procedures;
- facilitates an early warning system to identify and remedy deficiencies in a timely manner.

Based on their audits, SAIs draft reports in which they present their findings and observations, point out irregularities, draw audit conclusions, and make recommendations to address shortcomings. These recommendations form an important element of every audit report, as they provide policy makers with valuable guidance. This can help them to improve the effectiveness, efficiency and economy of public expenditure and its compliance with the applicable rules, and help to prevent errors, irregularities and misspending. Certain SAIs are also entitled to give their opinions regarding (draft) laws on topics falling within their remit, such as financial management, either on their own initiative, or at the specific request of the legislature.

## REFERENCES

1. European Court of Auditors, *Public Audit in the European Union*, 2019, disponibil online la adresa: [https://www.eca.europa.eu/Lists/ECADocuments/Book\\_Public\\_Audit\\_in\\_the\\_EU/Book\\_Public\\_Audit\\_in\\_the\\_EU\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/Book_Public_Audit_in_the_EU/Book_Public_Audit_in_the_EU_EN.pdf)
2. Fülöp, M.T. și Szekely, S.V., *The Evolution of the Internal Auditing Function in the Context of Corporate Transparency*, 2017, *Financial Audit*, vol. XV, nr. 3 (147), pp. 440-450.
3. Macarie F.C. și Moldoveanu O., *The evolution of the internal public audit in Romania during 2006-2015. Introduction to IA-CM (Internal public audit capacity measurement model)*, *Transylvanian Magazine of Administrative Sciences*, 2017, no. 2(41), pp.14-33
4. Oțetea, A., Tița, C.M. și Ungureanu, M.A., *Internal Public Audit in the Financial Crisis Context*, 2013, *Procedia Economics and Finance*, vol. 6, pp. 688-693.
5. Voinea C.M., *The internal Audit – between theory and practice*, 2016, Ed. Pro Universitaria, București;
6. Zinca (Voiculescu), C.I., *Measuring the value of internal audit in the banking industry*, *Financial Audit*, vol. XIV, no. 9(141)/2016, pp. 1009-1024, available online at [http://revista.cafr.ro/temp/Article\\_9499.pdf](http://revista.cafr.ro/temp/Article_9499.pdf)
7. \*\*\* KPMG, *Opinion poll of Romanian internal auditors. Internal audit in the age of continuous transformation* (2019), available online at [https://assets.kpmg/content/dam/kpmg/ro/pdf/2019/Sondaj-auditori-interni\\_Romania\\_aprilie\\_2019.pdf](https://assets.kpmg/content/dam/kpmg/ro/pdf/2019/Sondaj-auditori-interni_Romania_aprilie_2019.pdf)