



INTERNAL AUDIT IMPACT ON OPTIMIZATION OF FINANCIAL – ACCOUNTING MANAGEMENT DECISION IN PUBLIC ENTITIES

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Abstract

In public entities, like in any other organization, management, the leading process, should be based on a thorough knowledge of the given situation. The knowledge management needs in order to direct its activities is got following the analyses conducted to identify vulnerabilities and opportunities for the development of managed unit. Therefore, management activity in general, involves activities of leadership experience’s synthesizing and generalization, of searching new formulas and finding the best solutions and method for organization’s management. Internal audit has an important role in this management process.

Key words:

Internal audit, financial-accounting management, public entity, decision

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1. Financial-Accounting Management in Public Entities

In a public entity, management can be addressed at the level of the main procedural and structural component, as follows: *financial-accounting management*, human resources management, administrative management, etc. As part of the leadership system, financial - accounting management is defined as a function whose purpose is to provide the institution permanently with the necessary funds, to do a quantitative-value registration and record of material and financial resources register and to control the outcomes of operations engaged with these funds. Generally, financial-accounting management refers to the strategic guiding of activity within an organization by using a great amount of data for the set goals, based on approved decisions. *Thus, leadership process, management is based on thorough knowledge of the conducted activity, as a result of the given situation’s analysis, where both vulnerable points and development opportunities of the conducted unit should be identified.*

As practical activity, financial-accounting management has a permanent nature by exploiting the information provided by the accounting system and policies, this being a permanent concern of the modern public management. According to the definition from the Economic Dictionary, financial-accounting management

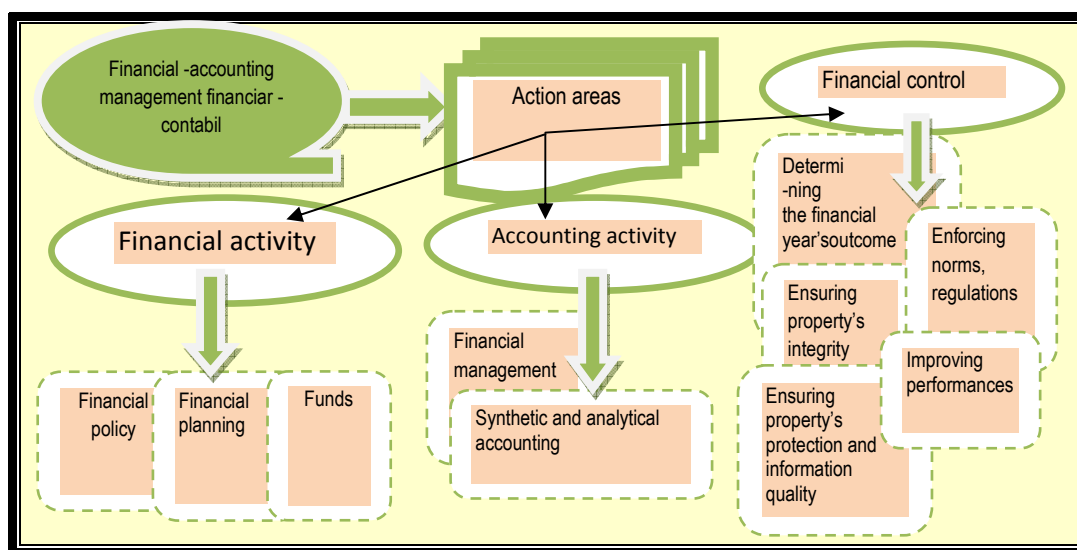
has the „role to permanently ensure the unit with the necessary funds, as well as to exercise control over the efficiency of the operations where these funds are involved”¹

A more recent and more complex definition is the one given by L.R. Haiduc according to which *„financial-accounting management addresses legal and administrative systems, as well as the procedures established in order to allow the citizens to conduct activity so that the proper use of funds is ensured, in accordance with the defined standards of probity and regularity”²*. In other words, financial-accounting management requires knowledge of legal norms governing accounting activity, its optimal organization, use, management and permanent track of financial means’ use based on the principle: *maximum results and minimal expenses*. At the same time, he is also concerned about the funds need’s analysis and provision for the following period. This extremely important area for economic activities and also for the ones in the public domain to which we refer, is meant to develop a system of communication between the specialists in the economic-financial area and institution’s top managers – non-financiers, through its own system of financial-accounting reporting adapted to the internal requirements of public management.

2. Action areas of financial-accounting management

According to the specialized literature, financial-accounting management operates in various fields of

activity. These are shown schematically, in figure 1, as follows:



Source: Own projection

Figure 1. Action areas of financial-accounting management

Therefore, the first field is *financial activity*, a domain that addresses issues related to:

- institution's financial policy, attracting the funds needed to perform the activity, organization of financial structure;
- financial planning – revenue and expenditure budget;
- property's funds of the unit;
- Within this field, in order to control and monitor public finance, financial management requires a series of specific instruments, out of which we enlist:
 - financial diagnosis reports (e.g.: analysis of revenues and expenditure, of receipts and payments), identifying strengths and also weaknesses with the help of economic indicators of profitability, liquidity, management (e.g.: average duration of revenues collection, payment to providers);
 - long-term financial estimates covering strategic objectives of the institution in what regards investments and attracting new financing sources;
 - budgeting and budgetary control reports which set and aim to annual targets.

The second area in which financial - accounting management operates is given by the *accounting activity* that includes actions related to:

- financial management of unit's property;
- synthetic and analytical accounts of the property;

- determining the financial year's outcome (surplus or deficit) and balance sheet's preparation;
- ensuring property's integrity.

The last area is *financial control*, a particularly important activity for organization's management since it provides the most important source of information necessary for the management action's performance. It aims to determine the economic activity state represented in the financial and accounting documents and its relation to in the legal provisions by which they have been defined. Financial control actions are directed³ towards:

- ensuring protection, ensuring patrimony and information's quality;
- enforcing the legal norms and regulations in force;
- fostering performances' improvement.
- *Considering these areas of action, we believe that financial - accounting management should get involved with its entire competence and experience, at least in the following areas: investments, financing and assets management.*

To put those into practice and to fulfill its overall goal, which is ensuring the efficient and effective use of public funds, it is very important that financial – accounting management takes the actions necessary to ensure conditions for issuing the decisional act. In this respect, it should target measures aimed at achieving the following actions:

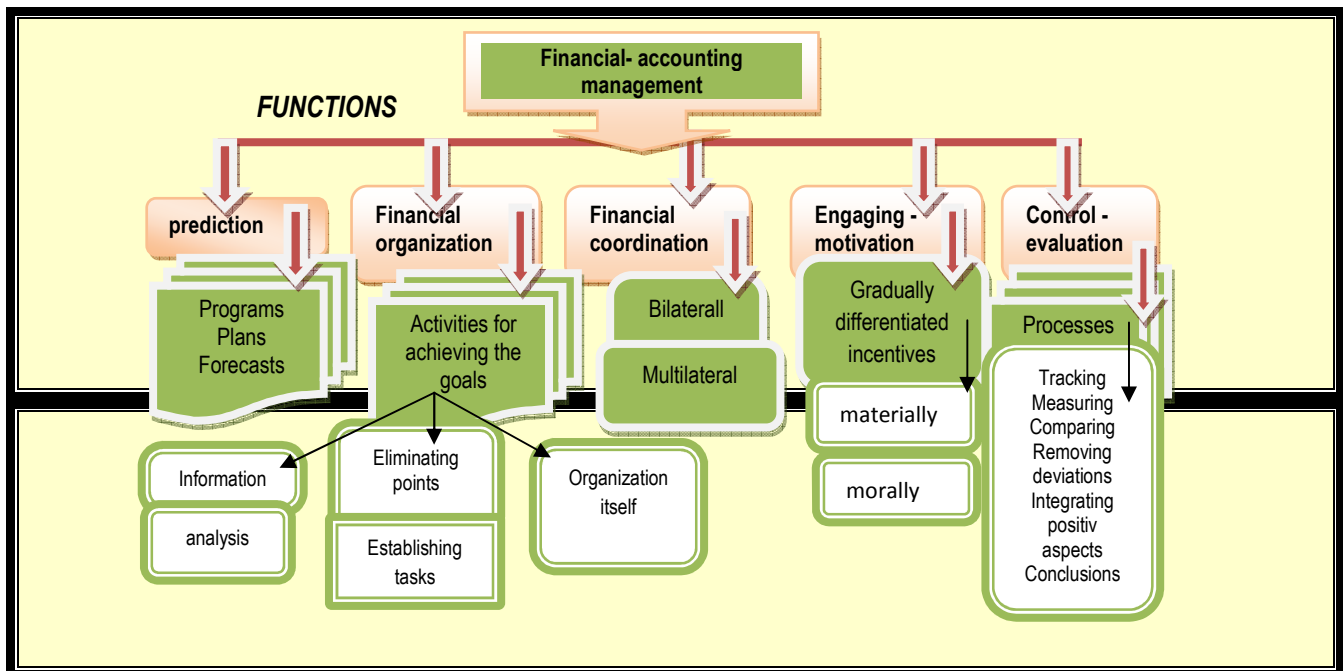
- optimal organization of information flow (financial-accounting documents and economic information);

- inventory of all the elements that can hinder or foster goals attainment;
- compliance with the internal rules and legislation in this field;
- evaluation of the financial effort, of all actions to be taken in a given period;
- timely ensuring the necessary public funds in terms of efficiency and effectiveness;
- tracking the use of allocated funds;

- ensuring and maintaining a financial equilibrium in line with the institution's goals.

3. Financial-accounting management's functions

According to the concept first mentioned by Henry Fayol in 1916, financial-accounting management consists in exercising its basic functions, identified through: *prediction function, organization function, coordination function, engaging function and control-evaluation function*, figure 2.



Source: Own projection

Figure 2. Financial-accounting management's functions

4. Decision-making process in the financial-accounting management

A survey of the specialized literature highlights a multitude of distinct approaches of the *decision*. A first approach is the one where the decision is defined as the *solution chosen from many alternative variants* (Hâncu, 2002). Certainly, there is the variant where the decision-maker may opt not to choose any solution, but to leave things to chance, to give free will, but this requires a decision. In other words, indecision is still a decision.

Another approach regards the decision as an *involvement in action to meet a business requirement of private parties – beneficiaries of the action* (Yates, 2003). In this situation, the decision concerns a person, a group of people that enjoy the outcomes of making business following that decision. In theory, the term *decision* may have many defitions, but in decisional practice, decision is in fact *the course of action consciously chosen to attain one or several goals*⁴.

By a decision, a choice situation is conceptualized in the form of mental image or an explicit model. In case of the model, it is necessary, as early as its conceptualization, to take into account the experience of entity's leadership bodies, of their perception and judgment selective character corroborated with the data of the economic and social problems' situation.

Even if these highlighted definitions can describe this term to a certain extent, *in our opinion, decision is the outcome of a deliberate, conscious decision by which the attainment of a target is sought*. In other words, *decision appears as a solution consciously chosen by the manager from several possible variants based on material information in order to coordinate and regulate the organization's activity*.

5. Decisions typology of financial-accounting management

Decisions may be classified by several criteria, but their categorization is relative because the same decision

can be framed from a criterion perspective, in another category. Thus, according to the their importance and

role, decisions can be classified as per table 1, as follows:

Table 1. Decisions typology

Classification criteria	Types of decisions	Main features
Horizon and implications	Strategic	-refer to a period longer than a year, usually 3-5 years; - contribute directly to the achievement of basic or derived goals; - address either the entire entity, or its main components; - are often adopted at the senior management in a group; - are integrated in strategies, plans or programs on long or medium term.
	Tactical	- usually refer to period ranging between 2 and 5 years; - contribute directly to the achievement of derived goals; - address either the entire entity, or a few activities with considerable implications on other areas; - are adopted at the top management in a group or individually; - are integrated in policies, programs and annual and quarterly plans.
	Current	- usually refer to periods of maximum several months; - contribute directly to the achievement of individual, specific and more rarely derived goals; - prevail exclusively at the low and medium management level.
Management echelon	Top	- are adopted by the top echelon of management (bodies of participative management, general manager); - a considerable part of them are strategic and tactical decisions
	Medium	- are adopted by the medium echelon of management formed from heads of service, head of offices or departments; - most of them are current and tactical;
	Low	- are adopted by the low echelon of management formed from institution's head of offices and departments; - are only current decisions.
Frequency	Periodical	- are adopted at certain intervals, reflecting cyclical nature of managerial and execution processes; - most of them relate to execution activities; - models and algorithms may be used widely to substantiate them.
	Random	-are adopted at irregular intervals, are difficult to anticipate; - their effectiveness depends on the decisional potential of the decision-maker.
	Unique	-have an exceptional nature, not being repeated in a foreseeable future; - their effectiveness depends decisively on the decisional potential of the decision-maker.
Possibility of application	Anticipated	- adopting period and the main elements involved are known long time in advance; - prevail in the scientifically led organizations; - are completely periodical
	Unpredictable	adopting period and the main elements involved are only known a little time in advance; - depend decisively on the intuition and decisional capacity of involved managers.
Extent of the decision-maker's decisional sphere	Integrated	- are adopted out of the decision-maker's initiative, without requiring the hierarchically superior echelon's approval - as a rule, are current, periodical and anticipated
	Approved	- their application is conditioned by approval at the hierarchically superior echelon's level; - are often strategic and tactical; - are characteristic of an authoritarian management style.
The scope of the decision-maker	Participative	- are adopted by participative management bodies; - most of them are strategic and tactical decisions; - time-consuming, reflected, as a rule, in the high degree of substantiation.
	Individual	- are adopted by a leader; - are often based exclusively on that manager's experience and decisional capacity; - are cheaper than the participative decisions.

Source: own projection

Another classification of decisions may be done by the degree of knowledge of the problem and of the alternative solutions they can generate (table 2):

Table 2. Tactical-strategic decisions. Differences

Crt. No.	Types of differences	Tactical decisions	Strategic decisions
1	By decisions type	Routine-like Adaptive	Adaptive Innovative
2	By the conditions of decisions' making	Certainty and risk (objective probabilities)	Risk (subjective probabilities) and uncertainty
3	By the level of plans' development	Top management and medium management	Medium and top management
4	Time horizon	Short term (2 years or less)	Long term (3 years and over)
5	Action's intention	Obtaining means for the strategic plans' implementation.	Ensuring survival on long term and / or activity's growth.

Source: own projection

Highlighted differences point to the need to know their typology in order to rationalize its components and to adopt and apply decisions of a higher quality.

The effectiveness of a decision is the result of its transposition into action, and its efficiency is the ratio between the useful social economic effect and the social economic effect made to substantiated its adoption. *Regardless of the decisions typology, in order to be successfully implemented, it is absolutely necessary to mobilize the creative energies of the people involved, asine qua non condition of success.*

6. The role of internal audit in the decision-making process

The highlight the role that the internal audit has within the decision-making process will first refer to its role in the public entity. Beside its contribution to the risk management's improvement and performance growth of entity's activity we mentioned in the previous chapter, intern auditor examines and evaluates the effectiveness of entity's internal control system, its degree of adequacy to the institution's needs and also the quality of tasks execution by existent personnel^v. In order to fulfill these goals, public internal audit exercises the following functions:

- verifying the reliability and integrity of financial and operational information carried within the entity and of the means used for the identification, quantification, classification and reporting this information;
- verifying the systems implemented in the institution in order to make sure that the policies, norms and procedures, legal and contractual provisions that could have a considerable impact on goals attainment are complied with and enforced exactly;
- verifying the measures and means of assets protection and their existence, if this is required;
- evaluating the economic and efficient use of resources;

- verifying the concord between the outcomes obtained after making the operations or programs with the aims established by the entity, as well as whether the plans approved for the respective operations and programs have been complied with.

These functions have been established by the *Directive on the responsibilities of internal audit, issued by the Institute of Internal Auditors, IIA^{vi}*. Achieving them requires that the internal auditor deeply knows the entity's specific, since for the collection, interpretation of audit evidence and determination of conclusions, he should resort to the acquired knowledge, his own judgment and accumulated experience, necessary for auditing the various areas corresponding to the entity's activities.

Further, intern auditor should have direct independence of action and expression of opinions, in the sense that the internal audit department will be directly subordinated to the head of the institution. The latter, will establish to him the audit areas according to the management decisions and specific reporting needs. The applicatin scope of an audit mission is still today a major concern of the auditor, its determination should be made by taking into account the requirements of ISA, relevant professional bodies, and laws and legal regulations in force.

Although internal auditor makes an assurance that entity's goals will be attained, he is not a guarantor that provides an absolute assurance that accounting information existent in the financial statements are accurate. However, he assumes an important responsibility, to inform the users that the financial statements are credible or not.

If the auditor concludes that the financial statements are not a fair view or he is in the position not to be able to give appropriate conclusions, then he bears full responsibility for not submitting this situation to the stakeholders, by means of the report on the audit mission's conduct.

Concluding, the internal audit function is useful particularly to the entity's management, providing this with assistance and counselling for decision adoption, based on the experience and knowledge accumulated during checks and assessment of activities subject to audit. At the same time, by the opinions, conclusions and recommendations given to management, internal audit contributes to adopting and improving its decisions. We also think that a better communication between management and internal audit may lead to an increased efficiency degree of the adopted decisions.

7. Public internal audit, management advisory function

It is widely recognized that the introduction of public internal audit is a decisive step in organizations' development, an important stage in introducing and extending performing management in public institutions, regardless of their activity object^{vii}. Audit's contribution is offering the head of the institution an objective and complete opinion regarding the attained performance level, risks threatening goals achievement and how entity's resources are used.

For the auditor's opinion to be objective, he should be independent in action and expression, to have autonomy that allows him to make assumptions and formulate recommendations. By highlighting the risks threatening the entity's goals attainment, internal audit contributes to the development of a modern, previsional and well-founded management. *Public internal audit should not be taken for the internal control function to whose structure it belongs, it is not a more "sophisticated" form of control strengthening, as it is often erroneously understood to be, but a management advisory function.*

In our opinion, the notion of audit-counselling should be used more often in order to remove the confusions with the audit-control notion, even if the two notions are not incompatible. Audit, by examining the efficiency and effectiveness of entity's actions adds value to control, and a rigorous control makes the auditor's work easier. This plus value added by the internal audit can be regarded from two directions that explain and justify its predictable development:

- a first direction is the one given by the increased complexity of entity's management, which obliges their heads to resort to internal auditor in more difficult or new situations in order to integrate them into the entity. In this case, internal auditor is only the advisor of the manager who assumes the established solutions;
- the second direction refers to the advisory role that is developed at the same time with the pedagogic role of the internal audit, a role given by its contribution to the specialists' coaching contribuția

sa la formarea specialiștilor în cadrul entității și de participarea la implementarea controlului intern.

Therefore, internal auditor, through the help given to organizations' heads with the activities' management, is also an assistance function. The head of the entity let himself be assisted by the internal auditor to solve the problems related to adopted decisions, on the purpose of getting a better control on those. The auditor gets more and ore the profile of a counsellor, of an advisor that we can call instantly, of a specialist^{viii}.

In other words, auditor is obliged to give as result, he advises, assists, recommends but does not decide; through his actions, based on reference norms that give him authority, internal auditor helps with control improvement, performance improvement and implicitly, the entity's goals attainment.

The advisory function of internal audit is also recognized internationally by adopting the *Professional Standards of Internal Audit* where many references are made to the counselling missions performed by internal auditors. The advisory activity is organized and carried out as follows:

- *formalized advisory missions^{ix}* covered by a distinct section of the internal audit's annual plan, formalized in nature and done by systematic and methodical approaches;
- *advisory missions information in nature*, are achieved by participation within various standing committees, or in projects with a determined duration, within fixed-point meetings or current exchanges of information, following to be carried out according to the procedures specific to those;
- *advisory missions for exceptional situations* take place by participation within specially formed teams in order to take over the activity required by the force majeure or by certain exceptional events, following to be carried out according to the procedures specific to those.

Concluding, in the decision-making processes that take place in public entities, managers establish their decisions based on the information they have and after consultation with the internal and external specialists that master the activity area specific to the entity. Among the specialists should also be counted the intrnal auditors that have deep knowledge of all activities within the entity, as by the nature of the function they exercise, using specific techniques and methods, examine and assess both adequacy and effectiveness of the internal control system, as well as the quality of activities carried out within the entity, thus enriching their knowledge and experience in the field. Also, auditors assess^x the degree of risk that can affect the goals attainment if certain decisions are adopted and establish the level of risk that the entity is prepared to accept.

Unfortunately though, managers of public entities regard audit more like a form of control and less as an advisory function or valuable resource for getting management performance. There are still, in many public entities and particularly at the level of local public institutions, some inertia in providing and operating internal audit as a result of perpetuating the confusion between control and internal audit, but also of the erroneous perception of management about the purpose of performing audit missions. But until managers of entities have not become aware of the contribution that internal audit may have in strengthening the decision-making and management control system, as well as in increasing management performances and public services quality, public internal audit will not be able to exercise its role of specialist and consellor towards it tends.

8. Conclusions

Following the analysis of the financial-accounting's importance from the angle of exercising its functions, namely: *prediction function, organization function, coordination function, engaging function and control-evaluation* we can appreciate that this permanently guides entity towards obtaining higher performances by anticipating how the economic processes in the entity are carried out, based on the outcomes obtained and on the accumulated experience.

Each of the five functions of financial-accounting management contributes to the improvement of the entity's financial-accounting activity performance and

actually a plus of value to the action of this activity's management. In decision-making, managers of entities rely both on their own experience, knowledge and information in the field, and on consultations with the specialists within the institution, sometimes also addressing to external consultants. In the decision-making processes that take place in public entities, managers make decisions based on the information they have and after consultation with internal and external specialists in the activity field specific to the entity.

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