

INTERNAL CONTROL AND AUDIT - A REQUIREMENT FOR RESPONSIBLE REPORTING OF HIGHER EDUCATION INSTITUTIONS WITH FINANCIAL AUTONOMY

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Abstract. *The public sector in our country has lost its credibility in terms of public resource management. A special role in the efficient organization of the management of an entity belongs to the internal control. This article addresses issues that aim to highlight the need to organize internal control and audit of accounting information in Higher Education Institutions with Financial Autonomy for responsible reporting.*

In this context, the research will show the capacity of public internal audit to contribute to strengthening the management function, efficient and effective risk management and efficient, effective and economical use of public entity resources, to determine the development needs of internal audit from this public sector, to identify the causes underlying the dysfunctions and create the possibilities for elaboration and implementation of a development strategy and last but not least, to ensure more knowledge in the field of research of internal managerial control and public internal audit, at the level of education.

The purpose of this approach is to establish the role and importance of public internal control structures within the management system of public entities in education and to improve the credibility of accounting reports.

Keywords: *internal control, internal audit, Internal Control Standards, higher education institutions.*

JEL CLASSIFICATION: I 23, M 41, M42.

INTRODUCTION

In the context in which, lately, the educational system has become the target of public attacks, it becomes increasingly necessary a strict control on the principles of economy, efficiency and effectiveness. In such situation, the solution of improving and more precisely the implementation of public internal control systems, appears as an urgently needed option, representing one of the most current challenges for managers of higher education institutions with financial autonomy (HEIFA).

The need to study the internal control of HEIFA lies in the requirement of a more efficient use of the resources allocated from the state budget, in order to prevent possible dysfunctions that could occur in the activity of these institutions.

The objective of the research is to perform the scanning of the good practices at HEIFA level from our country, and by comparison, of those in Romania, regarding the application of the internal managerial control system and the internal audit, in order to achieve a healthy financial management.

In its semantic sense, control represents a "permanent or periodic verification of an activity, a situation, etc., in order to follow its progress and to take measures for improvement" [1, p.231].

At the micro and macro-economic level, control is an efficient and necessary function of management, the control system being an essential tool for management in order to supervise and improve the activity [2, p. 55].

In the foreign literature there are various meanings of this notion, as follows:

- in the French sense "control is a verification, a careful inspection of the correctness of an act" [3].

- in the Anglo-Saxon sense "control is the act of supervising someone, something, a thorough examination or the power to lead as a tool to regulate a mechanism" [4].

In a simpler way, the Romanian author Ionuț-Cosmin Băloi, defines the internal / managerial control system as "simpler or more complex actions by which the manager ensures that the objectives of his organization are met in conditions of efficiency and effectiveness" [5, pp. 10]

After analyzing these meanings, we can define the process of internal managerial control in HEIFA as a set of actions through which managers of different levels ensure the fulfillment of university objectives in terms of efficiency and effectiveness.

APPLIED RESEARCH METHODS

At the basis of the elaboration of this article, is the investigation of the theoretical sources, which approach the internal managerial control system and the internal audit, as well as of the legislation in force regarding the internal control in the public institutions.

The research methodology was based on the analysis of the functioning of the internal control system in public institutions, and by applying the explanation and reasoning, it was proceeded to argue the need for its implementation in HEIFA.

THE RESULTS OBTAINED

The definition of the concept of internal control was based on several concepts of internationally recognized profile bodies, which we present below:

- **INTOSAI: Internal control** is a managerial tool used to provide reasonable assurance that management objectives are met [6];

- **Committee of Treadway Commission Sponsoring Organizations (USA) - COSO: Internal control** is a process implemented by the organization's management, which intends to provide reasonable assurance on the achievement of objectives grouped into the following categories: effectiveness and efficiency of operation; reliability of financial information; compliance with laws and regulations [7].

- **Canadian Institute of Certified Accountants (Criteria of Control) - CoCo: Internal control** is the set of elements of an organization (including resources, systems, processes, culture, structure and tasks) that collectively help people achieve the organization's goals, grouped into three broad categories: effectiveness and efficiency of operation; reliability of internal and external information; compliance with internal laws, regulations and policies [7].

According to the Law on public internal financial control no 229 of September 23, 2010, public internal financial control is a general and consolidated system established in the public sector, consisting of managerial internal control, internal audit and its centralized harmonization, aiming to promote the management of public entities according to the principles of good governance [9, art. 3]

In order to promote a good governance of a public entity, according to art. 5 of the Law on public internal financial control, public internal financial control includes:

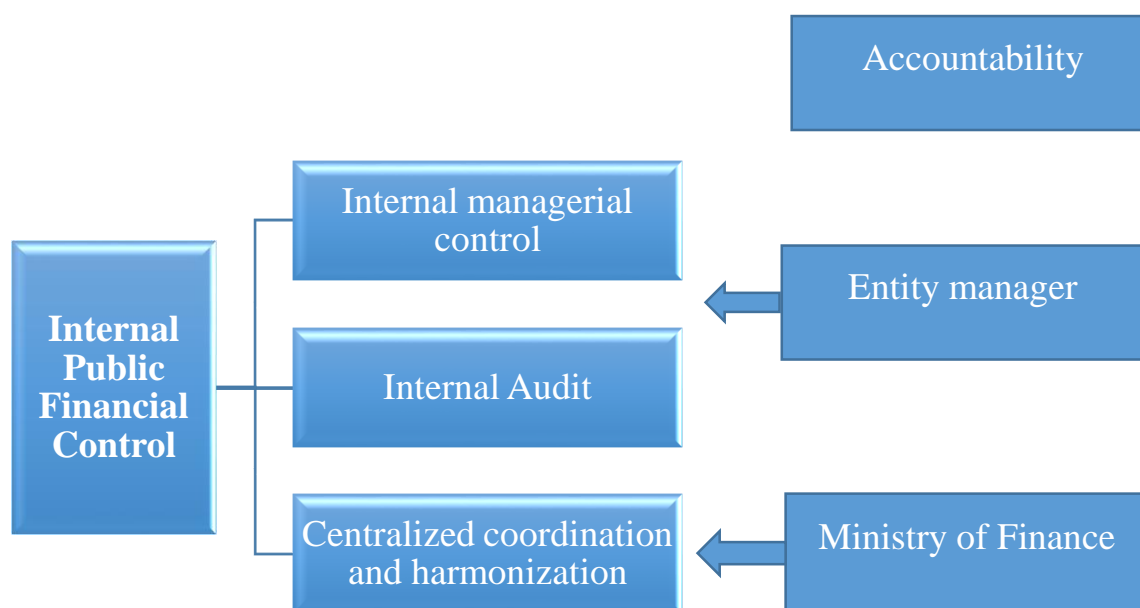


Figure 1. Components of Public Internal Financial Control

Source: developed by the author based on the Law on public internal financial control no. 229 din September 23, 2010

Internal managerial control is "a system organized by the manager of the public entity and its staff in order to ensure good governance, which includes all policies, procedures, internal rules, processes and activities carried out within the public entity to manage risks and provide reasonable assurance on achieving the planned objectives and results "[9, art. 3].

Internal audit is an independent and objective activity of assurance and advice, designed to add value and improve the activity of a public entity. The internal audit helps the public entity in fulfilling its objectives through a systematic and methodical approach, evaluating and improving the effectiveness of the risk management, control and governance processes [9, art. 3].

The responsibility for the centralized coordination and harmonization of the public internal financial control belongs to the Ministry of Finance by exercising the following duties [9, art. 29]:

- elaborates, promotes and monitors the policies in the field of public internal financial control;
- monitors and evaluates the quality of the internal audit activity, regardless of the form of its organization;
- monitors and evaluates the quality of the internal managerial control system;
- elaborates and develops the certification mechanisms of the internal auditors;
- collaborates with international bodies and specialized institutions in the field of public internal financial control.

In order to implement the mentioned law, the Ministry of Finance, by Order no. 189 of November 05, 2015, approved the National Standards for Internal Control in the Public Sector (NSIC) [10]. They are applicable to all public sector entities that manage the means of the national public budget. The 16 NSIC appear as a reference system in the field, defining a minimum set of management rules, grouped around five pillars - components of control (Fig. 2)

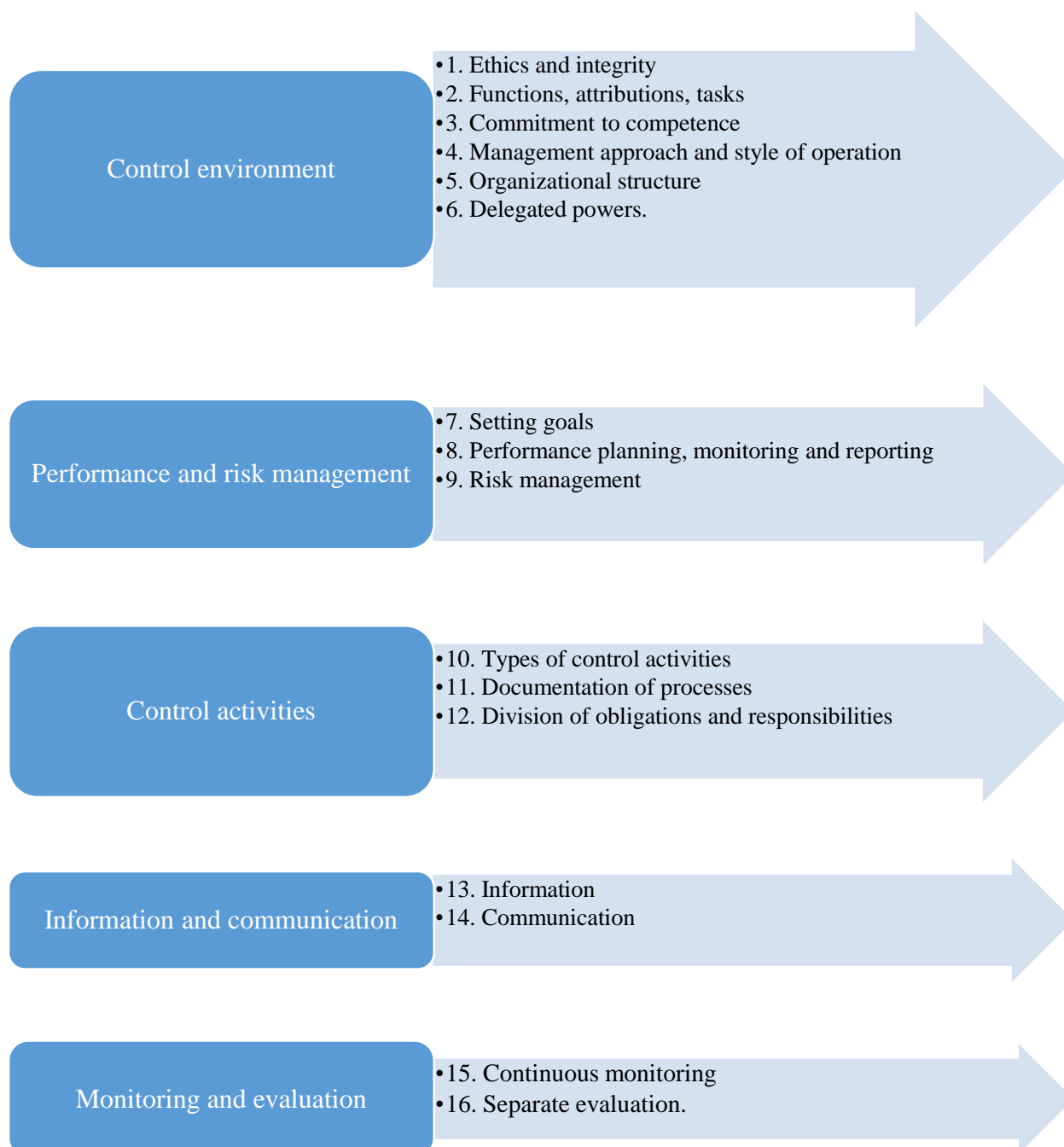


Figure 2. NSIC structure in the public sector

Source: prepared by the author based on the Order of the Ministry of Finance no. 189 of November 05, 2015 regarding the approval of the National Standards of Internal Control in the Public Sector.

For a better understanding, we will proceed to the description and explanation of these standards, by adapting to the particularities of HEIFA.

I. Control environment

NSIC 1. Ethics and integrity

- university managers, but also the teaching and auxiliary staff must have an appropriate level of professional and personal integrity, to show an ethical behavior in the activity they carry out;
- university managers ensure that all employees of an HEIFA are familiar with the regulations on the prevention of fraud and corruption, the reporting of fraud and irregularities;
- special emphasis is placed on the power of the example of leaders (rector, vice-rectors, deans, heads of departments, etc.) in promoting values at the university level.

NSIC 2. Functions, duties and tasks

- in order to ensure the success of the university's mission, staff must know their duties and role (through the job description) and act towards achieving the objectives;
- university management must support staff in carrying out tasks

NSIC 3. Commitment to competence

- within the university, positions are assigned only to competent persons, who have the necessary skills and experience to perform their tasks efficiently;
- the competencies and tasks of the teaching and administrative staff must be in constant balance and performance must be assessed regularly.

NSIC 4. Management approach and style of operation

- management staff (rector, vice-rectors, deans, heads of departments, etc.) must recognize the responsibility for implementing effective internal control systems.

NSIC 5. Organizational structure

- HEIFA establishes its organizational chart and defines the responsibilities and attributions of each subdivision, informing the staff in writing.

NSIC 6. Delegated powers

- university managers are responsible for delegating the powers to employees who have the knowledge, experience and ability necessary to perform the delegated tasks..

II. Performance and Risk Management

NSIC 7. Setting objectives

- the university managers, but also the teaching staff must establish the strategic objectives of the institution in accordance with the assumed mission;
- the general objectives must be translated into operational objectives, and the operational ones - into individual objectives, and must be communicated to the staff on the principle according to which the responsibility for achieving the goals falls on both the university managers and each employee.

NSIC 8. Performance planning, monitoring and reporting

- planning is seen as an essential function of university management, which consists in adjusting strategic and operational objectives to available resources by drawing up an action plan, setting realistic deadlines;
- the aim is to use numerical and qualitative indicators to assess the economy, efficiency and effectiveness of the steps taken towards achieving the objectives set;
- In any HEIFA, the Rector is responsible for the timely submission of summary reports on the situation of the patrimony and the budget execution.

NSIC 9. Risk management

- HEIFA must analyze periodically (at least annually), the risks related to the activities carried out and draw up plans to limit the potential consequences.

III. Control activities

NSIC 10. Types of control activities

- Within the HEIFA it is necessary to organize control activities for all processes, especially for economic activities (organization and management of accounting, elaboration and approval of the budget of revenues and expenditures, circulation of documents, activity of organization and operation of the cashier, etc.).

NSIC 11. Process documentation

- HEIFA draws up graphic and / or narrative descriptions of the basic processes to identify the most efficient way to manage risks;
- process documentation ensures the continuity of the activity of an educational institution, regardless of the staff flow.

NSIC 12. Division of obligations and responsibilities

- the manager of an HEIFA must ensure that the functions with responsibility in the exercise of certain tasks and in verifying the validity and correctness of the performance of that task are separated, thus reducing the risk of error, fraud or breach.

IV. Information and communication

NSIC 13. Information

- the information is seen as an absolutely necessary element for an operative and efficient monitoring of the processes that take place within a public higher education institution;
- the information provided by the ÎISAF to internal and external users must be.

NSIC 14. Communication

- the communication system within the institution must facilitate the timely dissemination of information both inside and outside the university.
- effective communication within the university must be achieved both horizontally and vertically, from top to bottom and vice versa.

V. Monitoring and evaluation

Continuous monitoring

- aims at the supervision by managers of control activities and the extent to which they reduce the identified risks.

Separate evaluation

- HEIFA managers must periodically evaluate the effectiveness of the internal control system, and possible malfunctions - mitigated.
- objective and independent evaluation of the internal control system within an HEIFA by the internal audit activity.

In any higher education institution, the first person responsible for the internal managerial control is the rector, who has the obligation to order the necessary measures in order to implement or develop this system and implicitly the specific procedures. Thus, the role of this control structure is a review and consultation activity available to the HEIFA management. The structure and the way of organizing the internal managerial control system will be established depending on the volume and complexity of the activities within each university.

At HEIFA level, the internal managerial control proves its usefulness in generating opportunities to capitalize on accounting information and ensuring the usefulness of information for management by following:

- application of the decisions adopted by the managers;
- budget execution;
- supervision of receipts and payments;
- the adequacy of the allocation of resources in accordance with the established objectives;
- efficient use of resources;
- increasing the responsibility of decision makers in engaging and conducting transactions;
- prevention of non-compliant accounting practices;
- avoiding excessive expenses or overestimating them;
- etc.

Usually, however, in the organization and exercise of internal managerial control, a number of limits may appear, which may have a negative impact on the certification and capitalization of accounting information. Among the possible limits of internal managerial control, we can mention:

ethics and professional integrity, the professionalism of those involved, the risk of undetection, inadequate procedures, associated costs, etc.

From this perspective, the role of internal audit intervenes. The internal audit took root in the public sector institutions due to the deficiencies of the internal control. *The purpose of the internal audit is to provide consultancy and provide objective assurance on the effectiveness of the internal management control system, providing recommendations for its improvement and contributing to improving the activity of the public entity [9, art. 7].*

The level of development of internal managerial control systems and public internal audit in HEIFA from our country is not remarkable, on the contrary, many institutions do not understand the real utility of the system and the set of associated standards.

Studying the HEIFA organizational charts from the country, out of a total of 18 institutions, only in 3 of them we can observe the internal audit office / department (TUM, SUPES and SUMP). An internal public audit report can only be found on the USMF website. In private discussions with employees of the financial-accounting departments of some HEIFA it was communicated that at the moment, in the universities of our country is not organized internal management control system and practically no public internal audit, which indicates that managers are not aware of the real usefulness of development and use of control standards gear.

However, according to the provisions of the Education Code of the Republic of Moldova no. 152 from July 17, 2014, the system of management bodies of a higher education institution also includes the Council for institutional strategic development [11, art. 104]. The tasks of this Council include the monitoring and evaluation of the efficiency of the use of the financial resources of the educational institution. The Council must include economists and lawyers, and the person appointed by the Ministry of Finance must have specific powers for financial monitoring and auditing. However, we believe that, in the structure of a modern university, internal audit must become an essential function, having the responsibility to provide assurance on the functioning of the institution as a whole.

In order to ensure the requirement of independence and objectivity imposed by the legislation in force [9, art. 18], and in order to avoid the involvement of the staff in carrying out the activities they audit, it is recommended to set up the Internal Audit Department (IAD) under the direct subordination of the rector. Thus, IAD must have sufficient authority to enable it to carry out its functions effectively, so as not to restrict its scope, giving it adequate objectivity in formulating recommendations.

The internal audit unit is responsible for ensuring and consulting, by evaluating the effectiveness of the financial management and internal control system of the entity and offering recommendations for its improvement. By providing consulting and assurance services, the role of internal audit is to assist management in assessing and improving the processes of governance, control and risk management, designed to ensure the achievement of the institution's objectives and adequate risk management.

Thus, through the actions carried out, the internal audit contributes to the certification of the accounting information by:

- assessment of the degree of application and adequacy of internal control in the financial-accounting field;
- verification of conformity of records;
- prevention of accounting frauds;
- ensuring the credibility of accounting information;

- identifying and minimizing the risks of accounting error;
- evaluating the degree of opportunity, compliance, economy, effectiveness and efficiency of the operations recorded in the accounting;
- monitoring the entire management system, etc.

The sizing of the public internal audit department will be done depending on the volume of activity and the size of the associated risks so as to ensure the audit of all activities carried out within the educational institution.

Next we come with the proposal of a set of actions regarding the organization of the activity of the public internal audit department adapted to the particularities of HEIFA (Fig. 3):

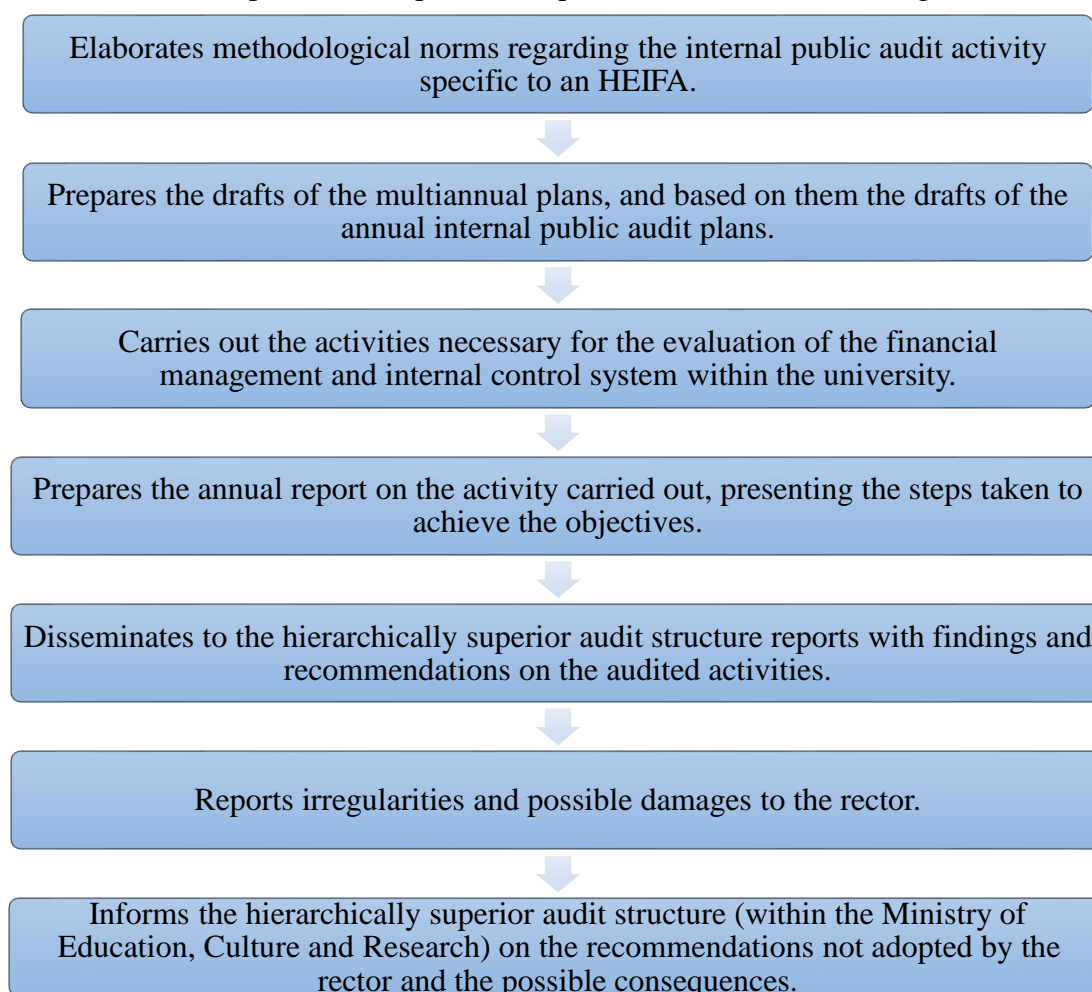


Figure 3. Duties of the public audit department of HEIFA

Source: prepared by the author

In our opinion, the internal public audit structure is an independent one through its freedom to act in order to evaluate all activities carried out by the university, using specific techniques in accordance with the audit rules, so that in the end it can issue objective recommendations, but without the authority to enforce their application and enforcement.

CONCLUSIONS

Taking into account the above, we consider that the internal managerial control and the internal audit is a functional tool that would allow the management of the higher education institution to receive, from an alternative internal source, assurances according to which the processes within the university are carried out in a way the probability of fraud, error or inefficient and uneconomic activity is minimized. Thus, the internal public audit department must fulfill the role of advisory body, encouraging the improvement of processes and operations within the educational institution. Basically, the internal managerial control structure and the internal audit structure have the role of helping the university management in fulfilling the assumed obligations, in the sense of directing the institution towards achieving the assumed objectives.

In addition, we believe that the organization of internal managerial control and internal audit by HEIFA, would contribute to accountability in the provision of accounting information and would increase the degree of trust of users.

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