

METHODS OF EVALUATING THE EFFECTIVENESS OF OPERATIONAL AUDIT IN PUBLIC ENTITIES

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Abstract:

A better integration of public internal audit within a public entity means a proper assurance of cultural conditions (an awareness of internal controls, the audit culture, a positive image of internal audit) and materials (specific objectives, a rigorous methodology, a good communication plan and acknowledged professionalism) necessary for carrying out an efficient activity.

Internal audit must quantify in figures all the result of its actions and demonstrate that it is profitable, position outside which it risks being viewed as a simple spectator from outside public entities foreign to their major concerns.

Key words: public internal audit, internal evaluation, external evaluation, indicators.

JEL Classification: M42

INTRODUCTION

The internal audit mission is designed to give assurances to the management on the organization of human resource management activities within the entity, the internal control system functionality, namely compliance with the normative legal framework, being structured on the following auditable areas: organizing personnel recruitment; determining the proper salary rights for personnel; evidence for holidays, time off and presence; personnel career development; continuous professional training of personnel; functioning of the information system used for human resource management; archiving documents.

The mandatory expression in figures of the internal audit's results is sometimes dangerous because it determines the auditor to give hits, that mainly practical pursuit of thieves, while its role should primarily be preventive. Results that the indiscriminate application of this concept may cause the auditor's diversion from the preventive and advisory action, placing him in the position of waiting for a damage to occur to better express it in figures and thus to capitalize more effectively the activity. The solution lies in an attitude of balance in expressing in figures those results that can then be thus reflected (recovered damages, avoided losses, realized gains), but without seeking sensationalism at any price and those results that are very important but cannot be expressed in figures (relevance of recommendations, updating the entity's geography risks and highlighting the identified opportunities).

RESEARCH METHODOLOGY

The methods of evaluating the effectiveness of public internal audit are grouped into the following two categories: internal and external evaluations.

From the **internal audit** category, the most important methods are: **supervision** and **self evaluation**.

External evaluations involve the use of one of the following methods:

- 1) auditing the audit process by external auditors ;
- 2) peer-review;

3) intervention of qualified team from outside the organization.

Both internal and external evaluations use a range of measuring instruments, of which the most important and frequently used are indicators of activity and quality, benchmarking and surveys.

Supervision is the activity of control and evaluation conducted by the head of the audit structure and the auditors' team leader in order to obtain assurance that the audit mission objectives were achieved in terms of quality. It is reflected in carrying out activities in guidance, counseling, supervision and verification of the internal audit team activities in mission, throughout its performance, either at the headquarters of the audit structure or under the presence of the head of the audit structure and the auditors' team leader at the location where the audit mission is conducted.

The evaluation of the internal auditors' activity is made, at the end of the audit mission, by the auditors' team leader by drawing up and completing the Evaluation Form for the internal audit mission.

It is important to make available to the audited entity's manager an instrument to evaluate the activity of the internal audit team. Such an instrument can be the *Evaluation Form for the internal audit mission* by the audited structure.

Using the two evaluation forms allows tracking the progress of each internal auditor from one mission to another, the way in which representatives of the audited entity perceived the added value created by the team of auditors during their operations, but also represent important instruments for evaluating the quality of general management of the public internal structure.

Self evaluation is the activity through which the internal auditor assesses it efficiency of the activity carried out, strengths and weaknesses, as well as reserves and solutions to improve it. Self evaluation does not present a great relevance due to the massive presence of the subjective factor in making the assessment.

Auditing the audit process by external auditors involves resorting to the services of an external audit firm to carry out the evaluation of the internal audit system within the organization. By using this method, favorable conditions are created for increasing the efficiency of internal audit by using and extrapolating the experience gained by the external auditors in carrying out audits of internal audit from other organizations.

Peer-review designates the internal audit carried out by internal auditors. This method resembles with an exchange of experience through which it is intended to know and to generalize the positive experience gained from performing the internal audit in the two public entities. The application of this method involves the usage of some proper evaluation instruments (indicators).

The intervention of qualified teams from outside the organization is a way that involves the development of the internal audit evaluation by teams qualified in this respect, from outside the public institution (organization), at least every five years. These teams are established within professional bodies (UCAAPI or Internal Audit Committee).

The evaluation of internal audit effectiveness is performed by using some renowned indicators in assessing the activity and quality of internal audit.

The main activity indicators are:

- *degree of achieving the annual audit plan* - calculated as a ratio between the number of performed missions and the number of missions under the plan. This indicator can be detailed by measuring, against the provisions of the plan, the number of ongoing missions, the number of delayed missions or the number of missions that were not carried out, but also of those carried out and unexpected.

- *average duration of audit missions*, this indicator is measured as a ratio between the number of days of audit and number of missions;

- *share of audit time in the total available time*, this indicator is calculated as a ratio between the number of audit days and number of days worked. Is an important indicator because its monitoring allows the identification of the evolution of time for carrying out audit activities, compared to the total work time;

- *share of time allocated to professional training*, this indicator is calculated as the number of days of professional training compared to the number of worked days. It measures the evolution of professional training time allocated to each auditor;

- *average number of pages of audit reports* - this indicator is calculated as a ratio between the number of pages of internal audit reports and the number of reports. It allows evolution measuring of the average number of pages of audit reports from one mission to another, from one month to another. It is clear that an audit report should contain no more, no less pages than are necessary to express clear, unequivocal the assurance regarding the audited objectives.

The main indicators of quality are:

- *share of unforeseen missions in total missions performed* - this indicator is calculated as a ratio between the number of unforeseen missions and the total number of missions performed. Allows monitoring quality evolution of the audit plan;

- *degree of acceptance of the recommendations* - this indicator is calculated as a ratio between the number of unacceptable (rejected) recommendations and the total number of recommendations. It expresses the relevance and the degree of appreciation of the recommendations made by the representatives of the audited entities;

- *degree of implementation of recommendations* - this indicator is calculated as a ratio between the number of recommendations fully implemented and the number of accepted recommendations. It offers a vision on the quality of the implementation of recommendations process, but also on their relevance by tracking the existence of recommendations which were accepted although, are impossible to implement because the process does not depend exclusively on the audited entity;

- *share of management activities in the total working time* - this indicator is calculated as a ratio between the number of days dedicated to management activities and the total number of days worked. It expresses the reserves of improving the use of available working time;

- *degree of completion of audit files* - this indicator is calculated as a ratio between the number of incomplete audit files and number of missions. It expresses the quality of performing the closing stage of the audit mission;

- *preventive damages* - this indicator is calculated as a ratio between the value of prevented damages and the value of certain damages. It expresses the quality evolution of the counseling and preventive activities performed by internal audit;

- *share of certain damages in total alleged damages* - this indicator is calculated as a ratio between the value of certain established damages as a result of the performed audit mission and the total value of alleged damages. It expresses the accuracy of the internal audit's calculations and findings, as well as the quality of the recommendations made and their implementation process;

- *degree of implementation of recommendations during the audit mission* - this indicator is calculated as a ratio between the number of recommendations implemented during the audit mission and the total number of accepted recommendations;

- *degree of damage recovery during the audit mission* - this indicator is calculated as a ratio between the value of certain damages recovered during the audit mission and the total value of alleged damages identified during audit missions;

- *opportunity of making some expenditures* - this indicator is calculated as a ratio between the value of inappropriate expenditures and the amount of expenditure made in a financial year. It expresses the reserves for efficiency improvement of public funds spending;

- *relative effectiveness of internal audit* - is calculated as a ratio between the total value of certain damages plus the value of prevented damages and the total value of the expenditures determined by the audit mission. Effectiveness is "relative" because it fails to include in figures other very important aspects of the internal audit quality (relevance of recommendations, counseling impact, updating geography risks, risk analysis etc.).

The main cost indicators are:

- *expenditures on auditor* - this indicator is calculated as a ratio between the value of total expenditures of the audit structure and the number of auditors. It is a budgetary indicator that allows monitoring of budget and staff evolution.

- *average cost for a day of the missions* - this indicator is calculated as a ratio between the total expenditure of the audit structure and the total days of mission. The indicator allows monitoring the evolution of the average cost for a day of the mission and its comparison with similar costs in the market. The analysis can be detailed in direct and indirect costs, salaries, travel expenses, accommodation expenses etc.

Benchmarking is a way of collaboration between auditors and the internal audit structures in order to improve the quality of the internal audit function.

The survey is a procedure that seeks to obtain the position of internal audit beneficiaries in relation to the quality of exercising the internal audit function. They are asked questions about the usefulness of internal audit, general interest, degree of relevance and realism of the recommendations, other questions about the various activities carried out by the internal audit structure.

Public Internal Audit Service

EVALUATION FORM OF THE INTERNAL AUDIT MISSION

Audit mission: Human resource management

Audit period: 01.01.2011-31.12.2011

Evaluated auditor: Popescu Ion

Acknowledged:

Drafted: Ionescu Mirela

Date: 15.03.2012

<i>Actual time budget: 274 hours</i>	<i>Planned budget time: 274</i>					<i>Observations</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
<i>In the preparation phase of the mission, the auditor has identified the risks and controls provided for the processes related to audit objectives and estimated properly the activity risks</i>				X		
<i>The audit programs were developed to meet mission objectives within the allocated budget time</i>		X				<i>It was necessary to work overtime</i>
<i>Audit objective, scope, procedures and budget were constantly reviewed to ensure an efficient use of audit resources</i>			X			
<i>There was a good communication between the auditor and the audited, and between the auditor and the management of the internal audit structure</i>					X	
<i>There was a good communication between the auditor and the management of the internal audit structure</i>					X	
<i>Perspectives and needs of the audited were taken into consideration in the audit process</i>				X		
<i>Audit objectives were achieved in an efficient and timely manner</i>				X		
<i>The audited had the opportunity to review the findings and recommendations when the problems were identified</i>			X			
<i>The internal audit standards were respected</i>				X		
<i>Audit findings show profound analysis and conclusions, and</i>				X		

<i>Actual time budget: 274 hours</i>	<i>Planned budget time: 274</i>					
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>Observations</i>
<i>practical recommendations are formulated for the identified problems</i>						
<i>Written communications were clear, concise, objective and accurate</i>				X		
<i>There are audit evidence to support the auditor's conclusions</i>					X	
<i>The audit procedures used have as a result sufficient, competent, relevant and useful evidence</i>				X		
<i>The documents were completed properly and in compliance with internal audit regulations</i>				X		
<i>The time budget was respected</i>					X	
<i>The personal productivity level of the internal auditor.</i>				X		

NOTE: The tables above will be completed given the following scoring system:

- 1 for unsatisfactory
 - 2 for weak
 - 3 for satisfactory
 - 4 for good
 - 5 for very good
- for any scoring below 3 written explanations are required

CONCLUSIONS

A good effectiveness of public internal audit is the result of the combined action of the following two vectors: integrating in the public entity and organizing the audit structure.

A better integration of public internal audit within a public entity means a proper assurance of cultural conditions (an awareness of internal controls, the audit culture, a positive image of internal audit) and materials (specific objectives, a rigorous methodology, a good communication plan and acknowledged professionalism) necessary for carrying out an efficient activity.

An efficient organizational structure of the public internal audit is a guarantee of compliance regarding the correlation between objectives and resources, is an expression of ensuring and guaranteeing the autonomy of internal auditors and the full affirmation of their professionalism, in compliance with national and international professional standards and the elimination of any interference in achieving the internal audit function.

It is an undisputable reality that, by management and internal control evaluating, based on risk analysis, the internal audit adds value to the management process contributing to its performance growth.

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