

Internal audit in the public sector in Republic of Macedonia

ISSN 1857-9973

657.6-057.54:35(497.7)"19/20"

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Abstract

In the last years of the 20th century and the first decade of the concepts of the 21st century, the procedures and form of internal audit in the public sector are increasingly present theory and practice of modern scientific research. The public is one of the main target groups, with auditors having to satisfy their needs. In essence, the role of the audit is to gain quality and reliable financial information on world capital markets. Public enterprises have special significance, primarily representing one specific form of enterprises that in the performance of their affairs have a responsibility, both for the public and for the founder. Acting like capital companies owned by the state and units of local self-government, public enterprises have a great responsibility to inform the public about the work of companies that are of general interest to citizens and if they are inadequate, working with them causes dissatisfaction with the citizens.

The Internal audit is an internal supervisory activity which is established within an enterprise or an institution and it serves to the needs of the same. This audit is conducted by the employees of the institution on which it is carried out. The Internal audit in the public sector in Macedonia is implemented in accordance with: The Law of Internal Audit in the Public Sector; The Regulation on the basic elements of the operational guidelines, charter, annual plan and program for internal audit and The Rules on how to perform the International Standards for the professional practice of internal auditing issued by the Institute of Internal Auditors of the United States. The following public sector entities have an obligation to organize internal audit units: Beneficiaries of the Macedonian Budget, the Pension and Disability Insurance Fund, the Health Insurance Fund of Macedonia, the National and Regional Roads Fund, the Employment Agency of Macedonia, all the municipalities and the City of Skopje, the agencies and other institutions established by law, public enterprises, as well as the legal entities in which the state is the dominant shareholder. The Internal audit in the public sector is conducted by internal auditors. The Internal auditors operate in accordance with the accepted professional standards based on international standards for internal audit. The Minister of Finance prescribes the standards for the professional execution of internal auditing.

Kew Words: internal auditors, internal audit units, public enterprises, public sector.

1. Introduction

The Internal Audit has evolved as a result of the needs of the contemporary business subjects to introduce their own, internal and additional type of supervision in order to control and examine the system of internal controls, to estimate its efficiency, and to detect the weaknesses in its functioning, as well as to propose measurements for their elimination.

The Internal Audit is an activity organized by the company's management, or some other business subjects, in order to help the estimation of the work as a whole, or of separate segments. It is a part of the managing supervision of the business functions, with the aim of their more efficient execution, which will provide the functioning of the informative sub-system that would give the management information for making appropriate business decisions. The Internal Audit is conducted both in the private, as well as in the public sector. The importance and the significance of the audit in the public sector can be seen in the fact that it contributes towards a quality and transparent work of the public institutions, and that it brings back the trust of the citizens in the work of the institutions that are considered to be a part of the public sector. It also provides protection of the economic efficiency of the business entity, as well as protection of the wider social interests. The necessity and the importance of establishing Internal Audit is not disputable in any highly-developed country; they are striving for a more regular and more intense evolution of the audit. With the constant necessity of implementing and using the Internal Audit, a lot of attitudes change and adjust to the new practical and scientific findings in relation to its application, as well as its content. The internal audit according to the definition of the Auditing Practice Committee is defined as one element of the internal control system set up by the management of the company, the banks or other institutions for the purpose of valuation, examination and disclosure of the operation of the accounting and other internal controls in the operation . The introduction of an internal audit is to improve managers' decisions or to meet statutory requirements. [1] While the Internal Audit Institute in the UK defines internal audit as an independent activity in corporations for performance appraisal introduced as a service of the corporation, where internal audit may also be a control function that is resolved by examining the adequacy and effectiveness of other controls and oversights. [2]

2. Concept, goals and functions of the Internal Audit in the public sector of Republic of Macedonia

At the beginning of the XXI century the widest public represents a whole whose needs should be satisfied by the auditors. The state audit has been conducting inspections and has been analyzing the flow of finances, as well as the existence of illegal procedures with which non-transparent expenditure of the public funds has been enabled. The public, on the other hand, is the one that always expects responsibility about spending the state funds, and the audit is an important tool in the whole chain of responsibilities. The public also expects that the information that will reach them by any means to be accurate and correct, because the primary duty of the auditors is to give an opinion about the truthfulness and accuracy of the content of the financial reports.

The audit is a process whose goal is to determine if the planning and confirming of the budget, as well as the use of the public goods, have been conducted in accordance to the laws of the country. Then, it needs to be assured in the fact that the funds need to be directed towards accomplishing the goals defined by the Government, the Parliament, and that they are in relation to the work programs. As a specific request of the audit in the public sector is taking into consideration the lawfulness and the regularity of the budget transactions, because the widest public expects to be assured in the fact that the procedures of composing the financial reports are within the framework of the law. Furthermore, its role is of significant importance in the public sector because through its activities the institutions of the public sector assure the citizens of all their obligations and activities, which belong in the public control. The audit can help manage the state finances in several ways by presenting the objective description of the way in which the expenditure of the public funds is made.

The bodies that conduct the audit in the public sector can have different names, but the complete name is Supreme Audit Institutions (SAI). These institutions, in most of the highly-developed countries have a tradition of about a hundred years. In order to achieve the goals of the audit, all the activities taken by the authorities, all the income, expenditure, all the state obligations in all the ministries, agencies, funds, must be subject to efficient audit.

In many countries, the crucial public services are performed by institutions whose activities are not completely determined and implemented in the state budget. They are under the non-budget funds, as well as under certain organizations that are financed by state grants. Such cases are particularly typical for the countries in transition, where the borders of the state sector are additionally complicated by the existing organizations which are under the country, but have not been completely defined as legal subjects, and yet perform commercial and industrial operations and activities, which under some other circumstances would function much better if they belonged in the private sector. Such organizations should be transferred to corporate bodies, if it is considered that their activities are under the state responsibility, or they should be privatized as a last resort, and during the period of privatization they should undergo an audit by the Supreme Audit Institutions. The audit in the public sector, on many bases, consists in the Lima Declaration and the INTOSAI standards, in which it has been emphasized precisely that the supreme institutions of audit are external services of the audit, and according to that they are not a part of the organizational structure of the institutions which undergoes an audit. As opposed to that, the service of the internal audit is established within the framework of the Government departments and institutions. These regulations clearly state that the audit that is conducted by the supreme audit institutions represents an external audit on the entity of the public sector. However, there are a number of activities that make a difference between the audit and the audit of the supreme international institutions, and they have a different mandate of accomplishing these activities. In the Lima Declaration, the state audit is generally divided into Ex ante and Ex post audit.

The Ex ante audit is called “a priori audit” and “per audit”, or a previous audit. The previous audit includes the supreme institutions of audit in approving the public expenditure, which in that way becomes a part of the process of financial control. It represents a review before the presentation of the condition of the administrative or the financial activities.

The Ex post audit is totally suitable for the etymological origin of the word, and it means a repeated review, or a review after the presentation of the condition. In the greatest number of countries, members of the European Union, the main activities and the complete focus of the supreme international institutions of audit has been changed from Ex ante to Ex post audit, i.e. examination of the conditions after the event.

3. Tasks and Principles of the Internal Audit

Basic tasks of the Internal Audit are: **[3]** estimation of the important risk factors and giving advice to the subject's manager to reduce the risk factors; determination and estimation of the economy, efficiency, and effectiveness on the basis of analysis of the work of the systems of financial management and control, as well as giving recommendation for improvement of the subject's work; inspection of the accuracy and completeness of the accounting records and financial reports; determination and estimation of the standardization of the work in accordance to the laws, the sub-legal and internal Acts and monitoring of the implementation of the measures taken by the subject's manager on the basis of the auditor's report.

The Principles according to which the Internal Audit is conducted are: **[4]** Principle of Legality, Principle of Independence, Principle of Objectivity, Principle of Confidentiality, and Principle of Professionalism.

4. Establishment and Function of the Units of Internal Audit

The manager of the subject is obliged to establish a unit of Internal Audit and to provide resources of its functioning. The function and the tasks of the units of Internal Audit are determined by Law, Sub-legal Acts, the Charter of Internal Audit, as well as by the Internal Acts of the subject. The units of Internal Audit that have unit users are also in charge of conducting the tasks of Internal Audit to the unit funds users of their structure. The manager of the subject may make a contract for establishing a corporate unit of Internal Audit with the manager of another subject of the public sector, or a contract of performing Internal Audit by a unit of Internal Audit from another subject of the public sector after a prior approval by the Ministry of Finance. The organizational structure and the number of internal auditors in the unit of Internal Audit is determined on the basis of the scope and the complexity of the tasks of the subject, and the funds that it has at disposal to manage.

5. Competences of the Manager of the Unit of Internal Audit and the Internal Auditor

The Manager of the Unit of Internal Audit has the competence to: **[5]** prepare a Guidebook for functioning of the unit and a Charter of Internal Audit; prepare yearly plans of Internal Audit on the basis of the risk estimation, and after the approval by the manager of the subject to provide their execution and monitoring; organize and coordinate the work of the Internal Audit and to supervise its execution; inform the manager of the subject of any personal conflict of interests at the performing of their tasks; inform the manager of the subject of any irregularities and/or frauds that could result into criminal, violation, or disciplinary procedure; submit the auditor's report to the manager of the subject, and if the audited subject is a budget user of second-rate, to its

manager as well; prepare quarter and yearly reports for the work of the Internal Audit; be in charge of the quality execution of the Internal Audit and the application of the instructions given by the Minister of Finance; be in charge of recording the auditory activities and keeping the documents of the audits; provide training of the internal auditors; prepare and submit yearly plans for training to the manager of the subject for their approval, and to provide their implementation; estimate the capacities and the resources of the unit of Internal Audit at a yearly level, and to submit recommendations to the manager of the subject for their coordination with the yearly plan of audit. Based on the above stated competence of the auditor consists of the following: [6] Verification of the validity of the financial statements, compliance with the business books and the actual state of assets and sources; It is an assessment of the quality and efficiency in the functioning of the internal control system and in particular the accounting system; The overall efficiency of business enterprises and the support to the management of governance policies and decisions are evaluated. The information received during the audit should not be shared by the auditors with other persons, either in oral or written form, unless the goals are to meet the statutory or other established obligations of the Supreme Audit Institution in accordance with the laws that apply. This applies to one of the ways of professional conduct by the auditor. [7]

The Internal Auditor has the competence to: execute the program of audit; inform the manager of the subject where the audit is taking place for the start of the audit and to present the Letter of Authority; study the documents and the conditions necessary for forming an impartial opinion; elaborate on the findings in writing objectively and truthfully, and to support them with evidence; immediately inform the manager of the unit of Internal Audit if during the audit there is suspicion of any irregularity and/or fraud that could result into criminal, violation, or disciplinary procedure; prepare a draft of the audit report with an action plan of conducting the recommendations, which is then examined and coordinated with the persons in charge of the audited subject; submit the draft and the final report to the manager of the unit of Internal Audit; immediately inform the manager of the unit of Internal Audit in case of conflict of interests in relation to the audit; return the original documents when the audit finishes, and if there is any suspicion that could lead to criminal, violation, or disciplinary procedure to submit the documents to the manager of the subject with a confirmation of their acceptance, so that he/she could take the appropriate measures.

Both, the Manager of the unit of Internal Audit and the Internal auditor should not be included in the audit if there is any of the following types of conflict of interests: if in the duration of the last three years the auditor has been employed in the subject where the audit is taking place; if in the duration of the last three years the auditor, the auditor's wife, or his/her relative to a second degree has managed the subject where the audit is taking place; if the auditor, the auditor's wife, or his/her relative to a second degree have a share or stocks in the subject where the audit is taking place, or if there are any other circumstances that could lead to a potential conflict of interests, and if the manager of the unit of Internal Audit will evaluate so and elaborates it in writing.

6. ISSAI 100 - Fundamental Principles of Public Sector Audit

Based on the many years of audit experience, audit institutions have encountered a number of problems that are fundamentally common and the need for introducing a framework that will be applicable in different policies and legal conditions has arisen. One of the objectives of the International Standards of Supreme Audit Institutions is to promote the effectiveness and independence of audits carried out by the Supreme Audit Institution Adopting Standards at the XIV Congress of INTOSAI [8] in Washington in 1992, and complemented by the XV a convention held in Cairo in 1995. ISSAI standards contain audit requirements in the public sector at the level of the organization, and at the level of the individual audit the purpose of the standards is to provide assistance to INTOSAI members in their development of a professional approach in accordance with laws and regulations as well as their powers . The INTOSAI emblem designates the professional organization of the Supreme Audit Institutions of the member states of the United Nations or their specialized agencies, which was established in 1953 and signed by 34 member states, comprising of 170 top auditing institutions and is one of the international leaders in creating a public sector audit. The INTOSAI mission is implemented with the help of a number of bodies composed of the aforementioned audit standards. These standards are structured in the following four sections: [9] Basic Principles; General standards; Reporting standards; Standards for the area of work.

7. Execution of the Internal Audit in the Public Sector

The execution of the Internal Audit in the public sector starts by planning. The planning of the Internal Audit consists of preparing a yearly plan of Internal Audit and an Audit Program for each individual Internal Audit.

The yearly plan of audit is prepared on the basis of the list of systems and processes selected by the risk evaluation of a three-year perspective, and in accordance with the disposable and potential resources of the unit of internal audit for the period of one year. The yearly plan of audit has to be signed by the manager of the subject. The yearly plan of audit can be modified if a considerable change occurs within the frames of the estimated risk, or the resources which were planned at the time of the preparation of the yearly plan. The modifications of the yearly plan have to be approved by the manager of the subject. The Central Internal Audit has to be informed about the modifications of the yearly plan. For conducting certain types of internal audit, it is necessary to engage external experts, bearing into consideration the scope, the complexity, the necessary qualifications or the availability of internal resources. The budget of each audit is individually planned in accordance to the necessity of engaging external experts.

The internal auditors of each individual audit prepare the auditory program and inform the managers of the organizational units that will be a subject of audit about its content, at least one week before the start of the work on the field. In order for the process of conducting the audit to begin, the internal auditors and the external experts need to have a Letter of Authority. The Letter of Authority is signed by the manager of the unit of internal audit, and the Letter of Authority of the manager of the unit of internal audit is signed by the manager of the subject, prior to conducting each of the audits envisaged in the yearly plan, with which the necessary information about preparing the audit is required.

The work on field is a continuous process of objective gathering of evidence that prove the expert evaluation of the systems and the processes that are a subject of the audit. The evaluation presents a whole of findings of the positive aspects and the weaknesses of the systems and the processes in relation to the identified risks and goals. In order to accomplish

the goal of the audit, the task of the work on field is to conduct all the auditory procedures stated in the auditory program.

The internal auditors prepare the audit report. The audit reports need to provide the managers of the subjects with an expert evaluation of the audited systems and process of financial management and control, as well as state all the irregularities, non-standardizations, and weaknesses. With the report, despite the expert evaluation, the internal audit gives the manager of the subject recommendations of improvement of the current condition and minimization of the weaknesses and improvement of the efficiency. The recommendations are prepared on the basis of the existing legal regulatives, the professional experience, the best practices of the countries members of the EU, in order to help the manager of the subject to lower the risks, increase the efficiency, and improve the quality of the system of financial management and control.

The preparation of the report follows the following three phases: Temporary report; Previous report; and Final report.

When conducting their activities, the internal auditors use the following as their work tools:

The Charter of Internal Audit, the Guidebook of Methods and Techniques of Internal Audit, as well as the instructions issued by the Central Internal Audit, in order to execute the internal audits faster.

8. Conclusion

From all this stated above one can come to a conclusion that the basic aim of the internal audit in the public sector is to help the members of the organizations perform a more efficient and effective execution of their business activities, and to increase the trust of the citizens into a specific institution. Furthermore, the Internal Audit has a goal to give recommendations, analysis, evaluations, advice and information that would refer to the work of the institution, and at the same time contribute towards an improvement of the work of the institution as a whole, as well as of its employees.

The Internal Audit has its own employees that are called internal auditors. The internal auditors have a significant role at the evaluation of the effectiveness, as well as the composition of the control, and they also contribute to the improvement of the efficacy of the institution's work through their expertise treatment.

The internal audit focuses its activities on the analyses of the efficacy, economy, and effectiveness in the work, and through these analyses contributes to accomplish a greater success in the work and improvement of the economic efficacy of the institutions. Through finding and eliminating the weaknesses in the work, the internal audit presents an independent and objective activity for assurance, which has been created to increase the value, to improve the work and the financial discipline of the business subject.

It helps the business subject in accomplishing its goals, in improving its efficacy of managing the risk, the control, and the process of management. In that direction, one can conclude that the Internal Audit presents not only a control path of the management or the administration of the institution, but a relationship between the system of internal control and external audit.

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