

# Thinking Global: Factors and Challenges Influencing the Audit Function



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**Abstract.** *Over the last decade, the desire to find solutions, achieve objectives and add value to increase performance has led to a focus shift towards programmes, projects and strategic instruments among policy and decisions makers, auditors, researchers, external consultants and why even every employee who bears responsibility in implementing processes and activities. There is also a need to improve the image of audit processes regarding strategic thinking in accordance with new and global directions. Yet society and the environment in general have become over the past decades less and less predictable, increasingly unstable, and dynamic. Therefore, the objective of this research is to understand the factors that have an impact on audit system capacity and to explore opportunities and challenges affecting this strategic resource in the Romanian public administration. The combined research methods of this analysis correlated with our findings represent the basis of this study.*

**Keywords:** *decisions through sustainable development (DSD), audit, modern instruments, strategic thinking.*

**JEL:** M41.

## 1. Introduction and literature review

From reviewing the literature, it is possible to see the two directions for the image of what does it mean this global system. First, we have the global perspective, and the evolution of the society is connected to the functioning of the organizations and public entities within, and, therefore, their efficiency and effectiveness contribute to the working of the society. Therefore, the process of modernization in the sustainable development era is focus on resource allocation, investment direction with institutional changes adapted to technological development orientation (Nechita et al., 2020) and according with the 17<sup>th</sup> Sustainable Development Goals from the the 2030 Agenda for Sustainable Development (UN, 2015). And in this first direction, there is an instrument which ensures the good functioning of an entity and grants its success: auditing, whose original objective was to detect and prevent errors and frauds (DeAngelo, 1981, Dobroteanu & Dobroteanu, 2002). Second, the improvement of performance in an organization heavily relies up on specific technics of the internal audit function.

Relevant literature in the field of audit includes published works which over time show the effectiveness of the audit function, which increasingly reflect up on its independence and work quality (DeAngelo, 1981, Casterella et al., 2014, DeFond and Zhang, 2014, Cho, 2020).

The 18<sup>th</sup> century was marked by the industrial revolution, which contributed to the growth of the audit. Due to business development and the separation of the ownership and management within the joint stock companies, there was an increase in the need for a uniform accounting system with the aim of obtaining more accurate financial statements and to prevent fraud. During the 19<sup>th</sup> century, the business owners became more interested in the way their invested money is used and therefore, they tried to verify themselves the fairness of the managers, but only managed to conclude that the accounts verification needs to be made by qualified personnel, independent from the management of the verified company. This was the moment when the auditor profession started to be regarded more importantly, due to the great demand of independent professionals (Dobroteanu & Dobroteanu, 2002).

The appearance of audit in the United States of America in the 20<sup>th</sup> century was of great relevance. It was highlighted the importance of internal control and there were established the links between the effectiveness of internal control and the extent of the audit procedures.

The audit profession is based on a flexible frame of reference, recognized worldwide, which adapts to the legislative and specific regulatory of each country, in compliance with different rules of governing from various sectors and specific organizational culture. In the context of auditing, organizational culture facilitates the provision of optimum services, effective decision-making to achieve the maximum results (Salih and Hla, 2016).

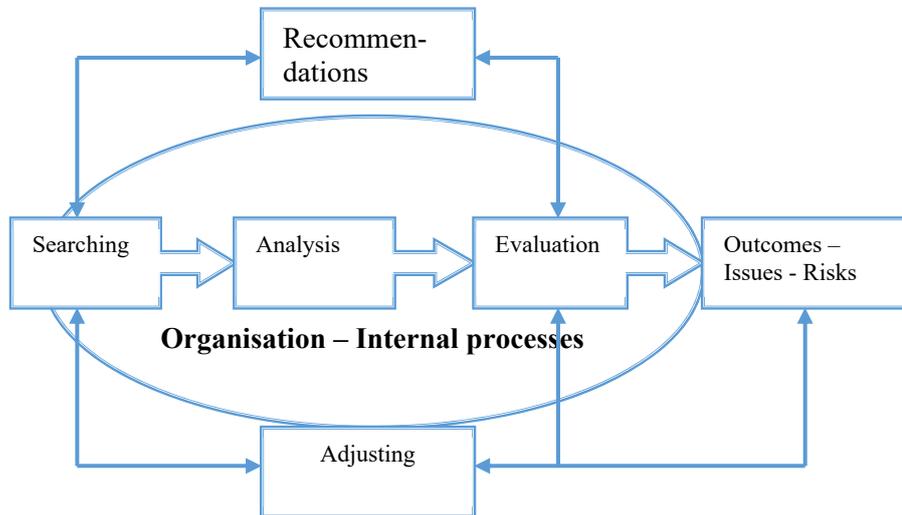
In Romania, the audit work is relatively recent and is included in the reform of public management, whose requirement is improving the performance of public entities activity, increase effectiveness and efficiency in the use of resources and also efficacy (Arens and Loebbecke, 2006).

Evaluations of activities according to these principles must consider other aspects beside public utility. Activities have to be asserted in accordance with their effects on the national economy and it is the role of public audit to maximize the benefits as such. A first attempt to enrollment in this trial was made by drafting Government Ordinance no. 119/1999 on internal audit and financial control, the term of internal audit is linked to financial control, thus creating confusion between the concept of internal control and internal audit. If in terms of defining concepts have succeeded in settling the two terms, currently there is a problem in understanding the internal control system which is the object of the internal audit, includes all activities of internal control conducted within the entity and their associated risks (later on, public internal audit in the public entities was founded, under the law 672/2002 and Government Decision no. 1086/2013).

Internal audit will reach its targets, if there is an organized system of internal control, formalized, consisting of procedures, procedural guidelines, codes of ethics. From this point of view the internal audit provides assurance that operations carried out, the decisions taken under control and in this way contribute to the objectives of the institution.

Nevertheless, in practice, audit is regarded as a process of information searching, analysis, evaluation and adjusting and a better view is presented in the following figure:

**Figure 1.** *The process of audit mission*



**Source:** own elaboration

The above figure illustrates the environment in which the internal processes are evaluated according to the specific variables from the audit methodology.

## 2. Scientific approach of the research

The research uses a variety of methods and correlated perspectives to develop the exposé by utilizing a series of working principles and rules to collect and interpret data, as well as theoretical construction and deconstruction strategies. In this regard a series of research methods and instruments has been selected which can offer the proper methodologic support to compare realities, experiences, and visions at national and international level. The expose is based on two research dimensions: a comparative dimension and a qualitative one, based also on a sociological questionnaire.

Also, the analysis of documents and relevant literature has been used as an alternative research method to establish both a starting and a reference point for the comparative analysis. Interpretations of specialists and theoretical works published in national and international indexed journals have been used to follow the evolution of the approached topic from the past towards the present and from its global dimension to the national realities.

Internal public audit undergoes a vast development process which targets not only uncovering irregularities and infringements, but also perfecting and optimizing

processes within public institutions. Therefore, public auditors take over the role of consultants by getting involved in the organizational management.

The scope of the analysis is to form an image about the perception of public institution personnel both managers and execution functions regarding:

- The role and importance of internal public audit;
- Public audit team experience;
- Auditor's independence and objectivity;
- Type of missions carried out in public institutions.

The working hypotheses which stand at the base of the research are:

1. Internal public audit is not perceived by managing personnel as a valuable resource for management performance.
2. Public audit function significantly contributes to the improvement of internal processes and to the increase of institutional performance through its objectives, actions and recommendations.

### 3. Findings

The questionnaire has been presented to a sample of respondents belonging to all relevant hierarchy levels, from the central and local public administration. It contained 16 closed multiple choice questions, with only one valid option. Out of the 16 questions 10 were content questions, addressing the role of public audit in public entities and how this role is seen by employees in different hierarchical positions. The other questions are closer defining the sample. The questionnaire required independent, unattended answer by checking the answer which best reflects the opinion of the respondent. There is one exception to this rule, a question where the respondent must grade from 1 to 5 a series of characteristics regarding internal public audit.

**Table 1.** *Structure of the respondents to the questionnaire*

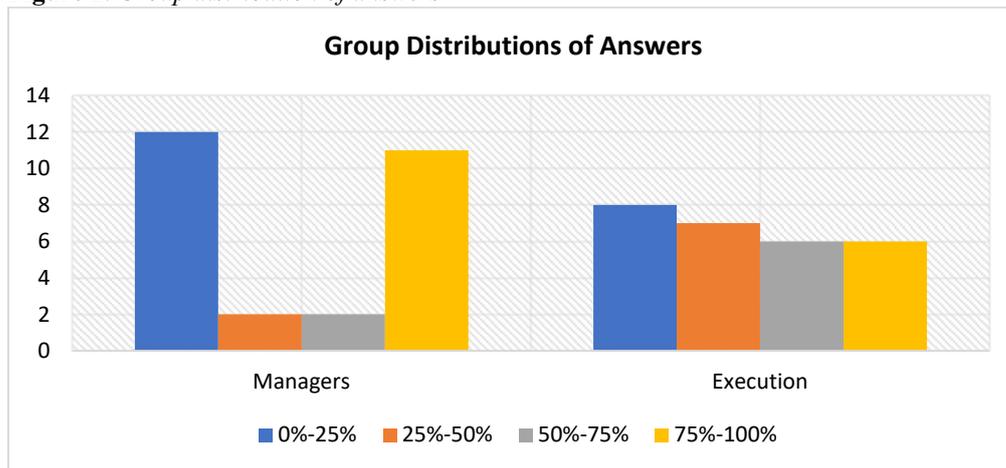
	Central public institution	Subordinate central public institution	Local public institution	Total
Execution position	23	33	27	83
Managing position	3	4	2	9
Total	26	37	29	92

**Source:** own elaboration, data collected through the questionnaire

According to table 1, the questionnaire has received 92 valid answers, from which 9 were managers and 83 employees with execution positions. Since there is a big gap between the two populations, the data had to be normalized before actually

performing the correlation analysis. The normalization of the data also reduces the influence of the population bias deriving from the small population of managers.

**Figure 2.** *Group distribution of answers*



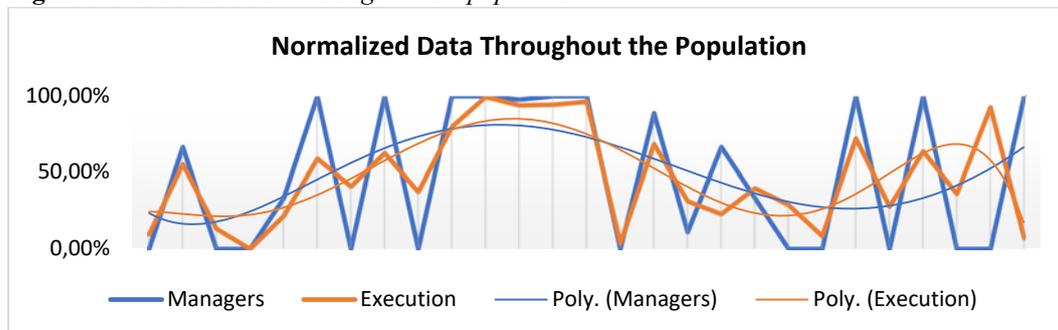
**Source:** own elaboration, data collected through the questionnaire

As can be seen from figure 2, the data is not distributed according to a gaussian law, which means, that most statistical tests, which presume a normal distribution cannot be performed here. For example, a mean value analysis, correlated with a standard deviation analysis would have misleading results. However, by using normalized data, simple coefficient analyses can be performed. In this regard, the following questions arise:

- Do managers and execution positions have the same opinion about internal public audit;
- Where are the biggest differences in the opinions of these two categories?

The following correlation analysis will offer relevant information for the two questions mentioned above.

**Figure 3.** *Normalized data throughout the population*



**Source:** own elaboration, data collected through the questionnaire

Using the Bravais-Pearson coefficient, the correlation between the answers of managers and of employees in execution positions has been evaluated. The value of the coefficient has been determined to be 0,656, which is moderately high<sup>1</sup>, denoting a mild resemblance between the answers given by members of the two groups. However, the small number of managers who answered to the questionnaire leads to a reduction of this coefficient. In reality the value of the correlation coefficient can be bigger. Out of the 10 content questions of the questionnaire, 7 are closed, two choice questions (yes/no). This leads in the case of the smaller population of managers to the occurrence of concentration phenomenon in the answers. If this phenomenon were to be reduced, a slight increase of the correlation would be felt.

The general mild correlation can also be observed when drawing the polynomial trends of the 6-th order for the two populations. From both trendlines and actual curves, it can be observed, how the answers tend to differ in the second part of the questionnaire, which addresses the role of internal public audit in public institutions in Romania. Thus, a certain disagreement between managers and execution personnel can be observed, even with the concentration phenomenon present, which leads to the general conclusion, that the efforts of auditors in public entities are being misperceived.

In opposition to the general mild consensus, there are two questions where opinions strongly differ between managers and execution positions:

- The question regarding importance of certain characteristics of internal public audit;
- The question about the value added by internal public audit to public institutions.

Regarding the question about the importance of certain characteristics of public audit, the focus has been laid on:

- Correlation with the institution strategy;
- Internal public auditor's experience;
- Uncovering and preventing fraud;
- Identifying and evaluating risks.

Internal audit is not a key function of economic entities, but rather a complementary one with a management support function. Admitting that internal auditor “councils” “assist” and “recommends”, but **never decide** (Dumitrescu Peculea, 2015, IIA,

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<sup>1</sup> By default, the value of the Bravais-Pearson correlation coefficient must be between -1 (denoting a strong correlation in opposite directions) and 1 (denoting a strong correlation in the same direction). A value equal to 0 means that there is no correlation exists between the two populations.

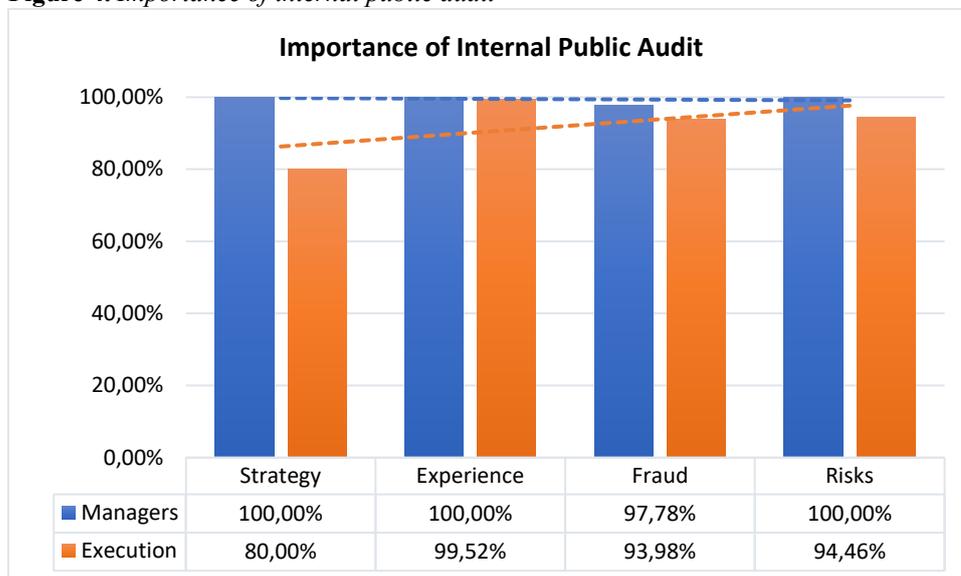
2017) it is obvious that it represent a mean for improving management control one activities thus reaching the objectives (Dumitrescu and Dumitrescu Peculea, 2014). However, internal public audit has a set of advantages over the management in assessing the activities (Dumitrescu, 2014):

- It has reference norms conferring it the authority to verify;
- Has methods and instruments to guaranty efficacy;
- Has independence of thought and autonomy to conceive all working hypotheses and formulate best recommendations;
- Does not have the constraint and obligations of a permanent activity.

Thus, internal public audit is best suited for supporting public management by giving an objective opinion on the activities within the organization. To formulate such an opinion, time and highly trained specialists are necessary.

Respondents had to grade the importance of the above-mentioned characteristic from 1 to 5. The points have then been added together, for managers and for execution positions and divided to the maximum achievable result (45 points for managers and 415 pints for execution positions). The Results are shown in figure 4.

**Figure 4.** Importance of internal public audit



**Source:** own elaboration, data collected through the questionnaire

The value of the Bravais-Pearson correlation coefficient for this set of data is - 0,158, which is extremely low, and denotes random opinions, especially between execution positions. By checking the evaluation of managers, one can observe a certain uniformity among the answers, while those of execution positions are mor

heterogenous. The low value of the correlation coefficient comes from this difference – uniformity vs. heterogeneity. This is also the lowest value of the correlation coefficient throughout the questionnaire. Also, the same low value can be attributed entirely to the big gap in grades given by managers and execution positions.

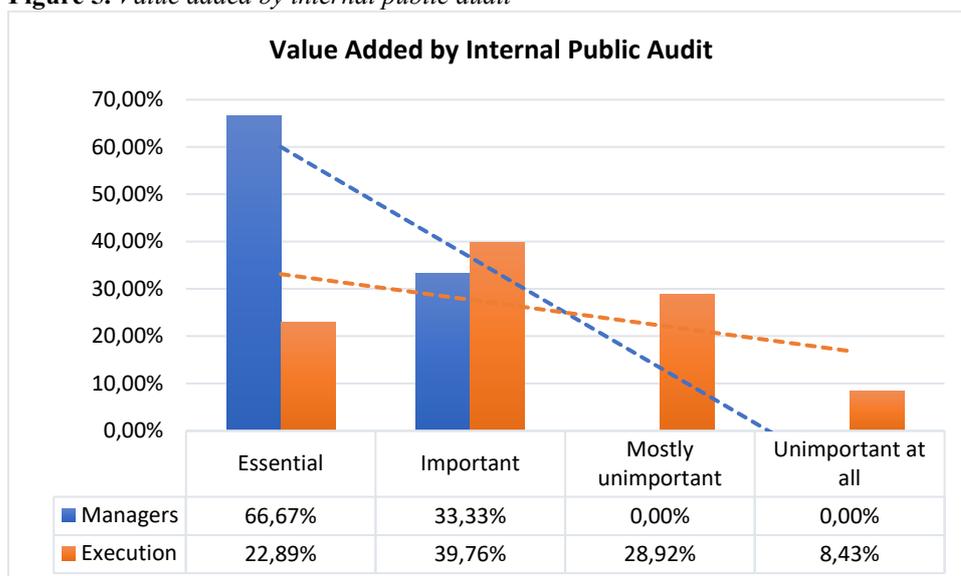
While a certain politically correct approach from the managers responding to the questionnaire cannot be excluded at this moment, the answers being consistent with both the general approach at the level of the European Union, as well as with the literature studied cannot be regarded anything else but correct. However, it must be mentioned, that would the grades for “Strategy” have been just 2% lower, the value of the Bravais-Pearson coefficient would have had risen by 0.7.

The second important question of the questionnaire is about the perception of the value added by internal public audit to the institution. Here the respondents had to choose between four values:

- Essential;
- Important;
- Mostly unimportant;
- Not important at all.

The respondents had to choose the value that best expressed their personal opinion. The responses are shown in figure 5.

**Figure 5.** Value added by internal public audit



**Source:** own elaboration, data collected through the questionnaire

The value of the Bravais-Pearson correlation coefficient for this set of data is 0,280. This is also confirmed by the down sloping linear trend lines of the two sets, even if the slopes greatly differ. And while trend lines of the second order also would have been applicable, since the answers of responders in execution positions show maximum at the second group, the results of the analysis would not have been different. This denotes slightly divergent opinions of managers and execution positions, even if, as well as for the previous question, a politically correct approach cannot be excluded.

#### 4. Conclusions

In conclusion, while at a global look, there seems to be a mild consensus between managers and execution positions regarding internal public audit, at an in-depth analysis of the situation, we can observe, that in important issues, like value added or the role of internal public audit in a public institution, opinions differ greatly. In this regard, the challenge is to strengthen the position of internal public audit through:

- Improvement of the general image of internal public audit between employees of the public sector;
- Greater involvement in strategic processes;
- Shift of focus from prevention to counselling;
- Better communication throughout public institutions;
- Increased independence and objectivity.

Therefore, internal audit function is considered to be an attribute of leadership internal audit represented by the internal auditor must be closed to management as well as management has to let itself be assisted by the internal auditor in matters that concern decisions in order to have a better control on the activity. Assistance and consulting are attributes of audit while control (Ghita et al., 2009) is an attribute and obligation of management. An Anglo-Saxon principle regarding the necessity of control says that “people do what they have to do when they are aware they will be controlled” (Zecheru and Nastase, 2005). While audit is an activity meant to ensure the functioning of the organization according to standards, laws and regulations.

Further development opportunities for the study revolve around expanding the study to more public institutions, in order to exclude the bias of the small sample of managers and, if possible, approach the population to a gaussian distribution, this allowing more tests to be carried out, thus increasing the expressivity of the data.

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