

ВНУТРІШНІЙ АУДИТ У СЕКТОРІ ПУБЛІЧНИХ ФІНАНСІВ І ЙОГО РОЛЬ В СИСТЕМІ УПРАВЛІНСЬКОГО КОНТРОЛЮ

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Наведено питання функціонування внутрішнього аудиту у державних фінансових установах та його роль в системі управлінського контролю. Головною метою даної статті є порівняльний аналіз внутрішнього аудиту і управлінського контролю з погляду Закону про державні фінанси.

Ключові слова: державні органи, фінанси, фінансові установи, управлінський контроль, внутрішній аудит, методи і методики, порівняльний аналіз.

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INTERNAL AUDIT IN THE PUBLIC FINANCE SECTOR AND ITS ROLE IN THE SYSTEM OF MANAGEMENT CONTROL

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The article presents the issues of the functioning of internal audit in the public finance sector and its role in the system of management control. The main purpose of this article is to demonstrate that the internal audit and management control are necessary tools for use in public sector units. The necessity to control comes from the fact the management of public resources.

The article presents the definitions and characteristics of both of these tools on a background of the Public Finance Act, both of 2005 and currently in force in 2009. Also in the article was presented a comparative analysis of the internal audit of financial control and management control.

Functioning of the public sector is based on the management of public funds. Thus, even more than in the private sector, the need to control income and expenditure in this particular sector. Glossary of terms in the public distinguished by inspection and auditing, as the main instruments to help manage and management of public funds.

The new Public Finance Act introduced the concept of management control and the proposed new regulations relating to internal audit that strengthen expenditure control. Control and internal audit are often identified both in literature and in practice. But this is a mistake because they have a different nature and should distinguish between them. These concepts are closely related and form a coherent system that guarantees the protection of public financial resources and effective management and operation of all public sector bodies, but their activities are varied.

Internal audit and, in particular, management control can contribute to increasing the efficiency of the functioning of the entire public sector.

Keywords: government agencies, finance, financial institutions, management controls, internal audit methods and techniques, comparative analysis

Introduction. The functioning of the public sector is based on the management of public funds. Thus, even more than in the private sector, the need to control income and expenditures appears in this

sector. The greater the need to control, the more difficult is the socio-economic situation of the country. Financial management, particularly public bodies, should be inseparably accompanied by control as part of the whole process of taking care of rationality in the management of limited public resources. The necessity to control comes from the fact the management of public resources. At the same time control in units of the public sector is an essential element, which increases efficiency and proper operation of these units.

Public finance sector comprises the processes of accumulation and distribution of public funds, in particular, deals with the collection and accumulation of income, public spending, deficit financing and financial obligations¹. Carrying out these tasks in an efficient manner is a challenge for the public sector, especially in a period of decline or stagnation of economic development of the state. Public sector organizations wanting to effectively manage public funds must introduce more and more new tools to help achieve its goals.

1. The concept and essence of the internal audit. Public finance sector is slowly beginning to undergo modifications and change its point of view of the management of public funds for effective management. This approach is called as the New Public Management, which is referred in the literature as a new model of public sector management, managerial revolution, a new paradigm of public sector management and philosophy of new public management². The idea of the new public management is the adaptation of tools, methods and techniques used in the private sector. The new management of the public sector can be introduced, inter alia, through management inspections and internal audit, which is a specific instrument for the rational management of public funds. By changing the approach to the management of a public entity, the definition of control was introduced, its nature and activities, which have much support the entity achieving its goals. Have been introduced:

- 1) Standards for the management control of public finance³,
- 2) Standards of internal audit in the public finance sector units⁴.

A tool that enables the new management of public entities is the internal audit. Internal Audit and its operation is based on the evaluation and improvement of risk management, control and management processes⁵. Internal audit and any other audit procedures are a kind of benchmark for the growth of effectiveness of public financial resources. Hence, the issue of rationalization of public spending becomes one of the fundamental issues relating to the proper functioning of all the organizational units within the public sector.

According to the glossary of terms related to auditing in the public administration differentiates the following controls⁶:

- 1) Audit - control of a functioning, which means an examination involving a comparison of the current state with expectation and objective assessment,
- 2) Control - in the sense of managerial control is a management system that ensures that management goals are achieved.

Follows from the foregoing is that one of the basic instruments of management support and management of public funds is to control and audit. Introduced the new law on public finance, management control and the proposed new regulations relating to internal audit strengthen expenditure control.

¹ L., Pawłowicz, R., Wierzb, *Finanse publiczne wobec procesów globalizacji*, Gdańska Akademia Bankowa, Gdańsk-Jurata 2003, pp. 98-100.

² *Nowe zarządzanie publiczne w polskim samorządzie terytorialnym*, red. Zalewski A., SGH, Warszawa 2005, p. 7, *Zarządzanie gospodarką i finansami gminy*, red. H. Sochacka-Krysiak, SGH, Warszawa 2005, p. 22.

³ Komunikat nr 23 Ministra Finansów z dnia 16 grudnia 2009 r. w sprawie standardów kontroli zarządczej dla sektora finansów publicznych (Dz. Urz. MF Nr 15 poz.84).

⁴ Komunikat nr 8 Ministra Finansów z dnia 20 kwietnia 2010 r. w sprawie standardów audytu wewnętrznego w jednostkach sektora finansów publicznych (Dz. Urz. Nr 5 poz. 24).

⁵ D., Rodewald-Fila, *Funkcja audytu wewnętrznego w perspektywie koncepcji New Public Management*, w: *Kluczowe problemy teorii i praktyki rachunkowości*, red. B. Gierusz, P. Lech, Prace i Materiały Wydziału Zarządzania Uniwersytetu Gdańskiego, Sopot 2011, p. 323.

⁶ *Glosariusz terminów dotyczących kontroli i audytu w administracji publicznej*, NIK, MF, MSWiA, Kancelaria RM, Warszawa 2005, p. 12, p. 32.

The new Public Finance Act introduced changes in the internal audit. The purpose of these changes is to significantly increase the effectiveness of the audit, which in turn will result in improving the functioning of the entire unit. The changes concern the definition, audit profession and the establishment of an audit committee constituting an independent team, which provides advice and consultation to the Minister in charge of a specific department of the administration⁷.

Table 1

Definitions of the internal audit

	The Public Finance Act from 2005 (Article 48)	The Public Finance Act from 2009 (Article 272)	Institute of Internal Auditors
The definition of internal audit	All activities involving independent study of management and control systems in the unit a result of which head entity has obtained an independent assessment of the adequacy, effectiveness and efficiency of these systems.	Independent and unbiased activity, the purpose of which is to support the Minister in charge of department or unit manager in the implementation of goals and objectives, through a systematic evaluation of the management control of and counseling.	Internal audit is an independent and objective activity whose aim is to add value and improve the organization's operations. It is based on systematic, carried out in an orderly manner, assessment of processes: risk management, control and corporate order and helps to improve their performance. It helps the organization to achieve the objectives by providing assurance on the effectiveness of these processes, as well as through counseling.

Source: Own study based on: the Public Finance Act from 2005 and 2009, and the International Standards for the Professional Practice of Internal Auditing, the Polish translation January 2011.

The concept of internal audit introduced by the new law is similar to the international auditing standards that have been issued by the International Organization of Supreme Audit Institutions and the Association of Internal Auditors. According to this definition it can be said that the essence of the internal audit is⁸:

- independence,
- objectivity,
- counseling,
- prevention,
- verification.

On the basis of the statutory definition can be stated also that the audit provides protection against inefficient and ineffective management of the budget unit and is closely related to management control. The Ministry of Finance has introduced standards for the management control of public finance sector⁹. They are a set of specific guidelines drafted on the basis of modern management models while maintaining the distinctiveness of the state and the specifics of a particular current legal system. The primary objective of developed standards is to promote the implementation of a uniform system of management control

⁷M., Kaczurak – Kozak, *Sprawozdawczość budżetowa w świetle nowej ustawy o finansach publicznych*, w: *Rachunkowość w teorii i praktyce*, Zeszyty Naukowe Nr 625, Finanse, Rynki finansowe, Ubezpieczenia Nr 32, red. Kiziukiewicz T., Uniwersytet Szczeciński, Szczecin 2011, p. 228.

⁸P., Łagodziński, *Audyt wewnętrzny wybrane zagadnienia*, w: *Rachunkowość w teorii i praktyce*, Zeszyty Naukowe nr 625, Finanse, Rynki finansowe, Ubezpieczenia nr 32, red. Kiziukiewicz T., Uniwersytet Szczeciński, Szczecin 2011, p. 388.

⁹Załącznik do Komunikatu Nr 23 Ministra Finansów z dnia 16 grudnia, 2009.

across the public sector, which is in line with international standards in this regard¹⁰. The standards are divided into five basic groups:

- 1) Internal environment,
- 2) Objectives and risk management,
- 3) Control mechanisms,
- 4) Information and Communication,
- 5) Monitoring and evaluation.

The last of these groups concerns the role of audit in the system of management control. It shows the methods for monitoring and evaluation of control and management control advocates subjecting the ongoing monitoring and evaluation. One of the guidelines in this area is just an indication of internal audit as a tool to provide an objective and independent assessment of management control. Standards mention internal audit as a necessary tool for the proper evaluation of management control.

International Standards for the Professional Practice of Internal Auditing also point to its important role in the control system. Standards about Auditing are divided into two basic groups: standard attributes (purpose, authority, definitions, responsibility, professional ethics, etc.) and performance standards (management audit, risk, tasks, planning, policies, procedures, coordination, etc.). In operation standard, it is advisable that the 'internal audit must support the organization in maintaining effective controls by assessing their effectiveness and efficiency and by promoting continuous improvement'¹¹.

Due to the area which deals with the audit, there are three basic types of internal audit:

- 1) Financial audit,
- 2) Operating audit,
- 3) IT audit.

The financial audit is to examine the financial statements in order to ensure the unit manager for their accuracy, completeness and compliance with applicable laws and internal regulations. Due to the fact that the reports provide information about the situation of assets and financial performance and its results must be made in a fair, clear, timely, reliable, and with the principle of substance over form. The reports must reflect a credible reality from the prudence principle¹².

Operational audit includes examining the effectiveness, efficiency, effectiveness and adequacy of systems that operate in the public. These systems include a control system, including management control, risk management and management of the entire unit.

IT audit is the control of information systems operating in individual units (protection of databases, hardware, verifying the reliability, confidentiality and security, and availability). In contrast, in the standards of internal audit in the public finance sector units can distinguish the following classification of types of internal audit¹³:

- 1) financial audit - audit of financial statements, reports on the implementation of the budget, accounting documents, accounting records;
- 2) system audit - testing system for collecting, managing public funds;
- 3) audit of activity (economy, High-Efficiency) - consists of assessing the effectiveness, appropriateness, savings in financial management of the unit.

Internal audit revealing an objective and independent assessment of the functioning of the unit becomes an important instrument for supporting the unit manager in effective management. Assesses the scope of financial management in terms of¹⁴:

- legality - the functioning of the unit in accordance with applicable laws and internal regulations of the unit
- economy - more efficient and effective management of public funds,
- expediency - the actions taken by the units must be consistent with the objectives and tasks,

¹⁰ A., Morow, *Kontrola i jej kryteria, rodzaje kontroli, standardy kontroli, procedury kontroli*, w: *Audyty wewnętrzny w jednostkach sektora finansów publicznych*, red. Szczot Jacek, Lublin 2012, p. 26.

¹¹ Międzynarodowe Standardy Profesjonalnej Praktyki Audytu Wewnętrznego, The Institute of Internal Auditors, tłumaczenie na język polski styczeń 2011 r., p. 30.

¹² K., Winiarska, *Audyty finansowy*, Wydawnictwo InfoAudit, Warszawa 2009, p. 17.

¹³ Komunikat nr 2 Ministra Finansów z dnia 30 stycznia 2003r. w sprawie ogłoszenia „Standardów audytu wewnętrznego w jednostkach finansów publicznych” – załącznik nr 1, p. 3.

¹⁴ *Kierunki modyfikacji zarządzania w jednostkach samorządu terytorialnego*, red. Lubińska T., Difin, Warszawa 2011, pp. 363 – 364.

- fairness - the care, diligence and promptness in carrying out the duties of employees and documenting all activities consistent with reality,
- transparency and openness-appropriate classification of income and expenses, compliance with accounting rules, reporting.

Internal audit performs a purpose built through a systematic and structured evaluation processes such as: risk management, implementation of tasks, control and corporate organization. Internal Audit also serves as ensuring the effectiveness of these processes and management advisory services to a public unit. In addition, the audit activities are carried out to detect all forms of abuse, including eliminating activities related to money laundering and countering the misuse of confidential information. Among the subsequent auditing tasks, we can distinguish strive to prevent conflicts of interest, detecting exceedances of powers or duties, and failure to care for the protection of intellectual property rights, and especially, to prevent tampering with it.

Internal audit also checks the implementation of any kind of audit recommendations. This function of verification is particularly important for raising the level of functioning of individual organizational units of public entities. At the same time, the efficient implementation of tasks facing the internal audit determines an objective assessment of the functioning of the public unit acting extremely important and helpful for the diagnosis of decision-making by the management.

In addition, under the smooth operation of the internal audit, internal quality control functions performed by the Directors of Internal Audit and Control. This control of control aims to achieve a high level of accuracy of audit activity. Internal audits are carried out systematically in accordance with the approved schedule, as well as ad hoc special requirements governing bodies of unit.

Therefore it can be concluded that the primary task of the audits is to assist the public entity in realizing the objectives using the method of systematic and fully disciplined approach to evaluate the processes, the effectiveness of risk management, control and governance¹⁵.

Public finance sector units that are required to conduct an internal audit can be divided into two basic groups:

- 1) biggest public sector entities (min. Ministry, Prime Minister's Office central offices, regional offices, customs and tax),
- 2) units which have significant public funds (units which management of funds is more than 40 million zł.).

However, the minister who supervises a particular unit has the right to order an internal audit regardless of the level of public funds available to potential unit.

According to the manual for the audit can be divided into four basic objectives¹⁶:

- 1) analysis of the types and sizes of risks faced by a public entity is determined to implement the audit program based on a reasonable assessment of the risks, as well as evaluating the effectiveness of the risk management process;
- 2) report on the activities carried out within established arrangements, including the formulation of any comments and proposals for improving the current state of operation of the controlled cases;
- 3) expressing an opinion on the effectiveness of controls in the audited entity as a system;
- 4) providing a reasonable opinion on the regularity of the operation of a public entity based on an assessment of the internal control system;

2. Internal audit and control. Control and internal audit are often identified both in the literature and in practice. But this is a mistake because they have a different nature and should distinguish between them. These concepts are closely related and form a coherent system, which guarantees the protection of public financial resources and effective management and operation of all public sector units, but their activities are varied.

Through the control, operation of the unit is subjected to continuous evaluation, the purpose of which is to point out their shortcomings, and the internal audit evaluates the efficiency and effectiveness of control mechanisms which means that the unit is maintained efficient control. Audit is an instrument that aims to strengthen internal controls and assess management control. Linking the audit with management control was introduced (as mentioned above) the new Public Finance Act and is based on the fact that the internal audit deals with the monitoring and evaluation of management control.

¹⁵ Winiarska K., *Teoretyczne i praktyczne aspekty audytu wewnętrznego*, Dyfin, Warszawa 2005, p. 17.

¹⁶ *Podręcznik audytu wewnętrznego w administracji publicznej*, Ministerstwo Finansów, Warszawa 2003, p. 7.

Management control in accordance with the Act is “all activities undertaken to ensure that the objectives and tasks in a manner consistent with the law, efficient, cost-effective and timely manner”¹⁷. Management control was introduced in exchange for previously functioning financial control, due to the fact that financial control was associated only with the control of cash. Management control is not limited to control of financial resources but also includes all other aspects of in-kind. Its main objectives are to ensure compliance functioning of units with the law, effectiveness and efficiency, the reliability of the reports, resource protection, respect and promotion of the principles of ethical conduct, efficiency and effectiveness of information flow and risk management¹⁸.

The concept of management control is becoming one of the main tools for real streamlining the functioning of country as a whole, provided that the solution will be not only documentary. Management control can not only be creating the whole mass of “paper”, which in a short time is transferred to the archive. Its real value as a tool for improving the effectiveness of units that manage public funds depends on respect for objective assessment of management control and real implementation of any observations and recommendations. The feasibility of any solutions declared in the pages of documents and their practical relevance is also the subject of an internal audit using any co-operation of other types of control functioning in the public sector.

Management control is extremely necessary and important at all stages and in all areas of management of the unit. Nevertheless, one can identify two main areas crucial for improving operations within a specific public entity.

The first of them relates to the ability to achieve its objectives, including monitoring the level of phased achievement of these objectives in different time periods, drawing correct conclusions with any deficiencies or even failures with the use of risk management. Assessment carried out for this area can not only relate to matters of purely formal because no system, even fully complying with the formal requirements does not improve the functioning of the unit without an in-depth analysis of the meaning of the objectives and methods of their implementation using the analysis carried out by the supervisory authorities.

The second area is associated with reliability of the information contained in the documents, which are statements about the status of a functioning management control. All knowledge about the internal weaknesses with realistic plans to improve the current state should be strongly rewarded. All statements aimed at increasing the efficiency of operation should be made based on reliable and so real and complete source of evaluation. The source of this can not be solely a cascade system of statements of individual organizational units subordinate to the leadership of the unit.

Table 2

Control and Internal Audit

	The financial control	Internal audit	Management control
<i>The regulation on the functioning responsibility</i>	The Public Finance Act 2005	The Public Finance Act 2009	The Public Finance Act 2009
<i>The persons performing</i>	The unit manager	The unit manager	The unit manager
<i>Frequency</i>	Supervision current, continued, constant	supervision sporadic	Supervision current, continued, constant
<i>Subject</i>	The processes associated with the accumulation and allocation of public funds	The control systems in the unit	The processes associated with the entire business of unit
<i>Field of activity</i>	Basic area - financial	All areas of activity	All areas of activity
<i>Target</i>	The detection of errors and irregularities, the causes of nonconformities occurring between real activity and designations, and informing individuals about the observations.	Providing reasonable assurance of proper operation, efficiency and effectiveness of different control systems, including evaluation and monitoring of management control	Providing: activities of unit in accordance with the law, internal regulations, achievement of the objectives, the efficiency, effectiveness, reliability of reports

¹⁷ Ustawa o finansach publicznych z dnia 27 sierpnia 2009 r. (Dz. U. 2009, nr 157, poz. 1240).

¹⁸ Ibidem.

Source: own elaboration based on the Public Finance Act 2005 and 2009, and the International Standards for the Professional Practice of Internal Auditing, the Polish translation January 2011

Management control and internal audit is an integrated system of proper functioning of the public finance sector units in which the internal audit assesses the reasonableness of management of public funds and identifies the arising threats.

The unit, which actually works management control can actually assess the value of internal audit. Then it becomes a natural desire to have an effective and high-quality internal audit.

Conclusion. Internal audit function contributes significantly to improve the management of public sector units. The role of internal audit strongly increased, especially during the economic crisis. At this stage of economic development, public entities managers should focus both on improving the rationality of the management, as well as greater protection the limited finances of the public sector from the negative impact of the crisis. The importance of internal audit has been further enhanced by the new law on public finances, which clarify both very definition of the audit and internal audit as an essential tool for objective assessment of management control for the proper functioning of public entities.

Internal audit thus becomes one of the irreplaceable tools for risk management and to determine the degree of implementation of the planned tasks members of the management of public sector units. Because there are practical importance of internal audit to improve the efficiency of any processes within the public sector, seems to be advisable extension of the obligation to use of this form of evaluation and control for all public entities, regardless of the size of public funds at their disposal.

1. *Glosariusz terminów dotyczących kontroli i audytu w administracji publicznej*, NIK, MF, MSWiA, Kancelaria RM, Warszawa 2005. 2. *Kaczurak – Kozak M., Sprawozdawczość budżetowa w świetle nowej stawy o finansach publicznych*, w: *Rachunkowość w teorii i praktyce*, Zeszyty Naukowe Nr 625, *Finanse, Rynki finansowe, Ubezpieczenia* Nr 32, red. Kiziukiewicz T., Uniwersytet Szczeciński, Szczecin 2011. 3. *Kierunki modyfikacji zarządzania w jednostkach samorządu terytorialnego*, red. Lubińska T., *Difin*, Warszawa 2011. 4. *Komunikat nr 2 Ministra Finansów z dnia 30 stycznia 2003r. w sprawie ogłoszenia „Standardów audytu wewnętrznego w jednostkach finansów publicznych” – załącznik nr 1*. 5. *Komunikat nr 8 Ministra Finansów z dnia 20 kwietnia 2010 r. w sprawie standardów audytu wewnętrznego w jednostkach sektora finansów publicznych* (*Dz. Urz. Nr 5 poz. 24*). 6. *Komunikat nr 23 Ministra Finansów z dnia 16 grudnia 2009 r. w sprawie standardów kontroli zarządczej dla sektora finansów publicznych* (*Dz. Urz. MF Nr 15 poz.84*). 7. *Łagodziński P., Audyt wewnętrzny wybrane zagadnienia*, w: *Rachunkowość w teorii i praktyce*, Zeszyty Naukowe nr 625, *Finanse, Rynki finansowe, Ubezpieczenia* nr 32, red. Kiziukiewicz T., Uniwersytet Szczeciński, Szczecin 2011. 8. *Międzynarodowe Standardy Profesjonalnej Praktyki Audytu Wewnętrznego*, *The Institute of Internal Auditors*, tłumaczenie na język polski styczeń 2011 r. 9. *Nowe zarządzanie publiczne w polskim samorządzie terytorialnym*, red. Zalewski A., SGH, Warszawa 2005. 10. *Pawłowicz L., Wierzb R., Finanse publiczne wobec procesów globalizacji*, *Gdańska Akademia Bankowa*, Gdańsk-Jurata 2003. 11. *Podręcznik audytu wewnętrznego w administracji publicznej*, Ministerstwo Finansów, Warszawa 2003. 12. *Rodewald-Fila D., Funkcja audytu wewnętrznego w perspektywie koncepcji New Public Management*, w: *Kluczowe problemy teorii i praktyki rachunkowości*, red. B. Gierusz, P. Lech, *Prace i Materiały Wydziału Zarządzania Uniwersytetu Gdańskiego*, Sopot 2011. 13. *Ustawa o finansach publicznych z dnia 30 czerwca 2005 r.* (*Dz. U. 2005, nr 249, poz.2104*). 14. *Ustawa o finansach publicznych z dnia 27 sierpnia 2009 r.* (*Dz. U. 2009, nr 157, poz. 1240*). 15. *Morow A., Kontrola i jej kryteria, rodzaje kontroli, standardy kontroli, procedury kontroli*, w: *Audyt wewnętrzny w jednostkach sektora finansów publicznych*, red. Szczot Jacek, Lublin 2012. 16. *Winiarska K., Audyt finansowy*, Wydawnictwo InfoAudit, Warszawa 2005. 17. *Winiarska K., Teoretyczne i praktyczne aspekty audytu wewnętrznego*, *Dyfin*, Warszawa 2005. 18. *Zarządzanie gospodarką i finansami gminy*, red. H. Sochacka-Krysiak, SGH, Warszawa 2005.