



# The Role of the Court of Auditors in Carrying Out the External Control within a Public Entity

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## ABSTRACT

This paper aims to highlight the role of the Romanian Court of Auditors in using the financial resources of the state and the public sector, whose mission is to certify the accuracy of the accounts, results and financial statements. The strategic objectives of the institution are: correct and efficient management and use of public funds; protection of Romanian and European community financial interests; strengthening the institutional capacity as an independent, professional and credible institution of external public control and audit of public funds; ensuring the harmonization with the international standards adopted by the International Organization of Supreme Audit Institutions (INTOSAI) and with the European Guidelines; implementation of the harmonized legislative framework in the external public audit area, as the international good practice evolves.

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## 1. Introduction

The external audit of Romania is provided by the supreme control body – the “Court of Auditors”. The role of the institution is to audit the usage of the state financial resources in the public sector. The external public audit of our country mainly includes financial audit and performance audit.

Referring to relations between public internal audit and external public audit in Romania there is a good collaboration and cooperation, as evidenced by an official statement from the Romanian Ministry of Finance and the Court of Auditors. This act practically ensures increased efficiency audit, it provides professional training and exchange of information for the auditors.

The Romanian Court of Auditors is a member of the following international professional organizations and associations: International Organization of Supreme Audit Institutions (INTOSAI), European Organization of Supreme Audit Institutions (EUROSAI), Contact Committee of Supreme Audit Institutions of the European Union (CC), the European Court of Auditors (ECA) and the Association of Supreme Audit Institutions of Public Finance.

In the International Relations area, the Supreme Audit Institution of Romania, i.e. Court of Auditors, with the Audit Authority – is an autonomous, modern and efficient institution, and its bilateral and multilateral activity is outstanding at both European and international level, contributing to the increase of responsibility in the use and administration of public funds, combating fraud and establishing financial discipline and improving professional standards.

## 2. Organization and Audit Missions of the Romanian Court of Auditors

The objectives pursued by the Court of Auditors are professionalism, transparency in the exercise of the audit function, as well as the results obtained.

In terms of professionalism, the Romanian Court of Auditors intends to carry out control actions and audit missions without external influences, to promote and facilitate the introduction of international professional standards that are adapted to the current requirements in the field of auditing.

From the point of view of transparency in the exercise of the audit function, the institution intends that the information collected during the audit should have a solid basis, always provide evidence in the file, and accurate reports.

From the point of view of the institution's results, witnesses are the results of the Court of Auditors obtained between 2013 and 2019, as may be observed from the institution activity reports, which were conceived by external public auditors, highlighting that the directors, the deputy directors, etc., engaged with great responsibility for the fulfillment of the objectives stipulated in the organizing law.

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Depending on the types of verification actions, the Court of Auditors carries out, besides control actions, financial audit missions and performance audit missions.

The financial audit of the Court of Auditors is the activity that “seeks to determine whether the financial statements are complete, real and in accordance with the laws and regulations in force, providing an opinion in this regard”.

The financial audit of the execution account of the budget of public institutions is finalized through the elaboration and presentation of an audit opinion and an audit report containing the findings regarding the results of the management and internal control systems, as well as recommendations for correcting the deficiencies found along the way.

According to the Law 94/1992 on the organization and functioning of the Court of Accounts, performance audit represents “independent evaluation of how an entity, program, activity or operation carries on from the point of view of efficiency, economics and effectiveness”.

The main purpose of this audit type is to reduce costs, increase the efficiency of the resource usage and achieve goals.

Examining the results of an entity from the point of view of the 3Es (economics, efficiency, effectiveness), we find that a performance audit can be an audit of the economics, efficiency and effectiveness, a combination between either two or it can be a complete audit that includes all three components.

The performance audit analyzes whether “the public money was well spent”, considering the measures taken by the entities subject to verification with reference to the three principles.

As a consequence of an analysis of the audit activity, it was found that in 2019, at the level of the Audit Authority within the Court of Auditors, 50 audit missions were performed, according to Figure 1 below. Within these missions were evaluated more than 650 public and private entities and several more than 1450 procedures on the line of public procurement whose value amounts to over 15 billion lei.

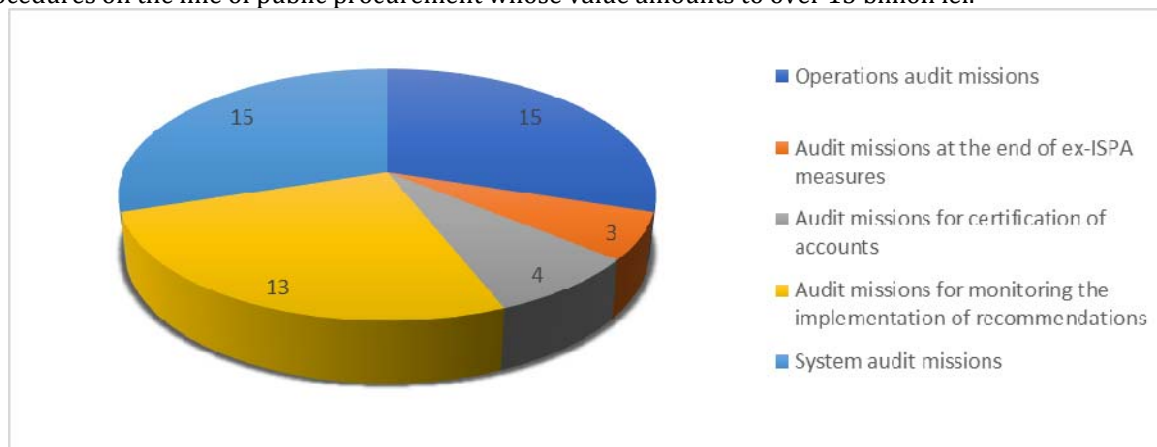


Figure 3. Distribution by type of missions of the verifications carried out by the Audit Authority in 2019

Source: Court of Auditors 2019 Activity Report

## 2.1 Scope and Field Subject to Audit

The Romanian Court of Auditors exercises its powers independently, both centrally and locally, through the Chambers of Accounts, according to the Constitution and the Law on the Organization and Functioning of the Court of Auditors no.94 / 1992.

According to the Regulation approved by the Plenary Court, the Chambers of Auditors conducts and organizes its specific activity, according to procedures well established by the Plenum Court and in accordance with the law.

The fields in which the County Chambers of Auditors operate are mainly: the establishment and use of local budgets, social insurance budgets, administrative-territorial budgets, establishment and management of public debts, the use of budget allocations for investments and subsidies, management of public assets, financial resources management etc.

In the control activity, the main objectives pursued are the correct use and administration of public funds, the observance of the financial discipline, the elimination of the irregularities found during the audit.

In 2019, the Chamber of Auditors Galati carried out its activity running financial audit missions, performance audit missions, but also control actions on territorial administrative units and implicitly on public entities. The budget execution at the level of Galati county was audited.

According to the data registered with the General Directorate of Public Finance Galati on 31.12.2019, the budget execution on the whole of Galati county was carried out by analyzing the local budgets of the communes, cities, municipalities, counties, analyzing the budgets of the public institutions, the budgets of the external credits, the budgets of the external non-reimbursable funds etc.

Thus, at the level of local budgets of communes, cities, municipalities, counties, there was a surplus of 191 thousand lei, unlike the budgets of public institutions financed in whole or in part from own revenues and internal credit budgets where there was a budget deficit of 4944 thousand lei, respectively 3000 thousand lei.

If we refer to the previous years, it is found that surpluses have been registered in recent years, the highest figure recorded in the chapter "budgets of public institutions fully or partially financed from own revenues" being 11,111 thousand lei on 31.12.2019. From the point of view of the synthetic execution of revenues and expenditures, it is found that at the level of revenues of local budgets throughout Galati county, distributed on the main categories of revenues, they were collected in proportion of approx. 97% of the final provisions.

Examining the revenue execution account, we observe a low level of revenue collection, due to the weak financial statements of the economic agents, without material power, but also due to forced enforcement bodies that do not fully implement measures for the collection of debts.

Following a comparison made over the last 3 years, the synthetic evolution of revenues made throughout Galati County is above that of 2017, but below the level of 2018, the main reason being the increase of amounts broken down by VAT and income tax, as seen in Figure 2.

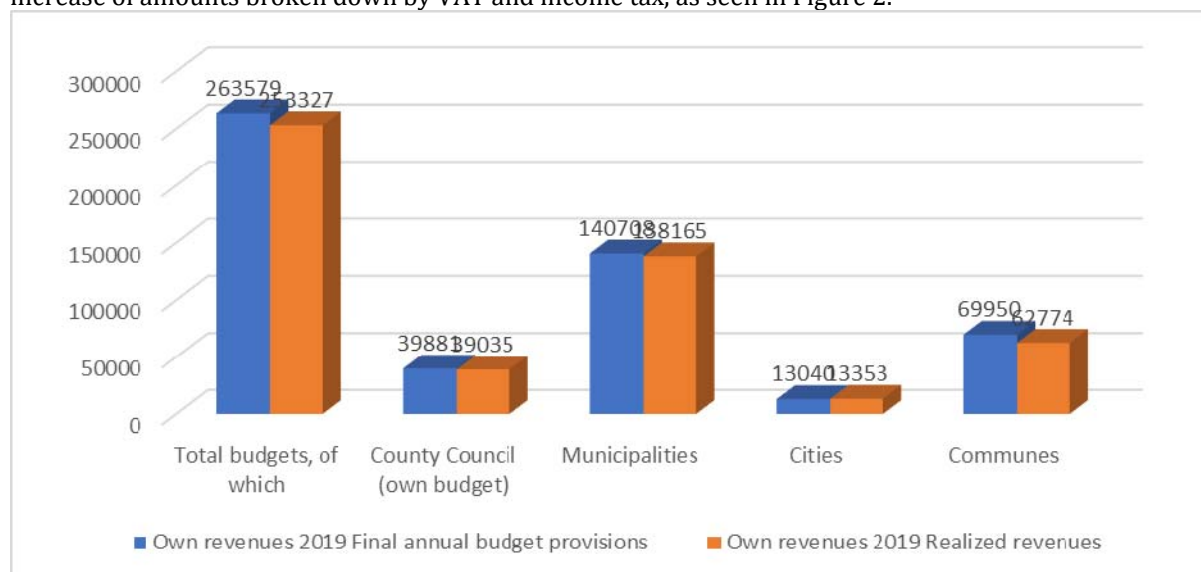


Figure 4 The synthetic evolution of the incomes realized in the period 2017-2019

Source: conceived by the author.

If we analyze the degree of total income for Galati county, we find that in 2019 it is about 94% of the total definitive provisions, as shown in figure 3 below.

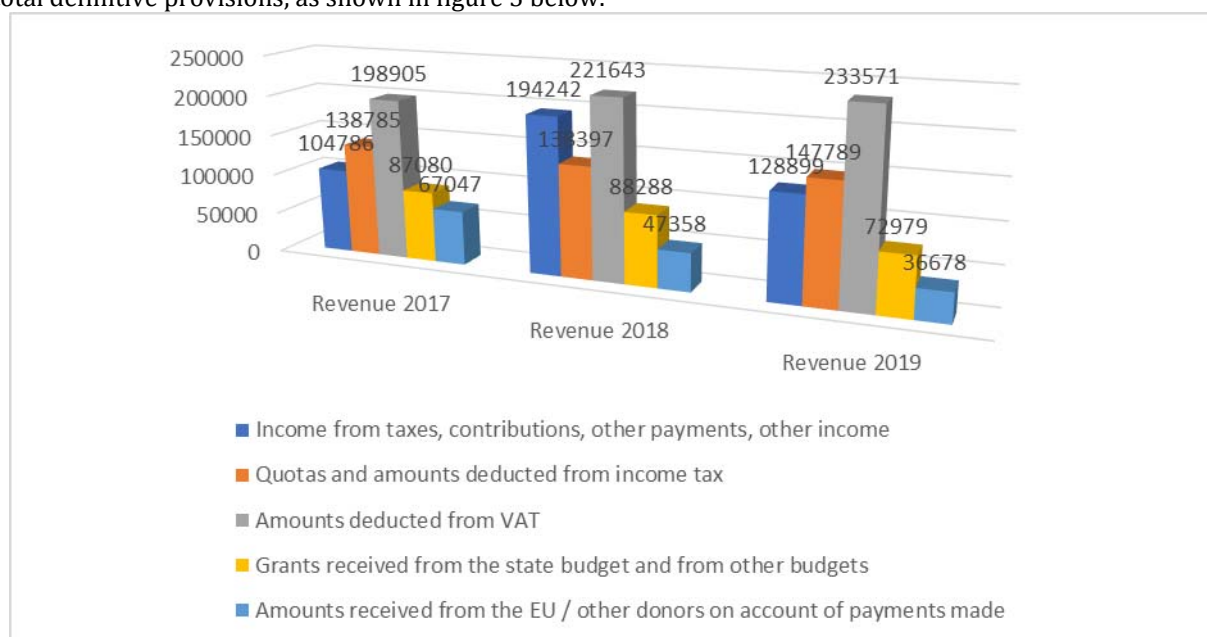


Figure 5 Execution of own incomes by categories of budgets (thousands of lei)

Source: Report on local public finances for 2019

## 2.2 Objectives and Main Findings from the Audit

At the level of 2019, the activity carried out by the Chamber of Auditors of Galați County shapes up in verifications at the administrative-territorial units, as well as those that are subordinated to them, autonomous utilities, companies in which the administrative-territorial units have full or partial share capital. The verification actions are justified by the number of control acts concluded as a consequence of the financial audit missions, performance audit, as well as by control acts, the share being held by the activities on financial audit.

Thus, in the chapter "actions carried out at the county level on financial audit", there is a significant increase for 2019, compared to 2018 and 2017, when the results were weaker. Also, most Audit Reports were registered in 2019, respectively 34 reports on the line of financial audit, with 10 more than in 2018 and 12 more than in 2017.

Graphically, the structure of the actions carried out at the level of Galați county is presented in figure 4 below:

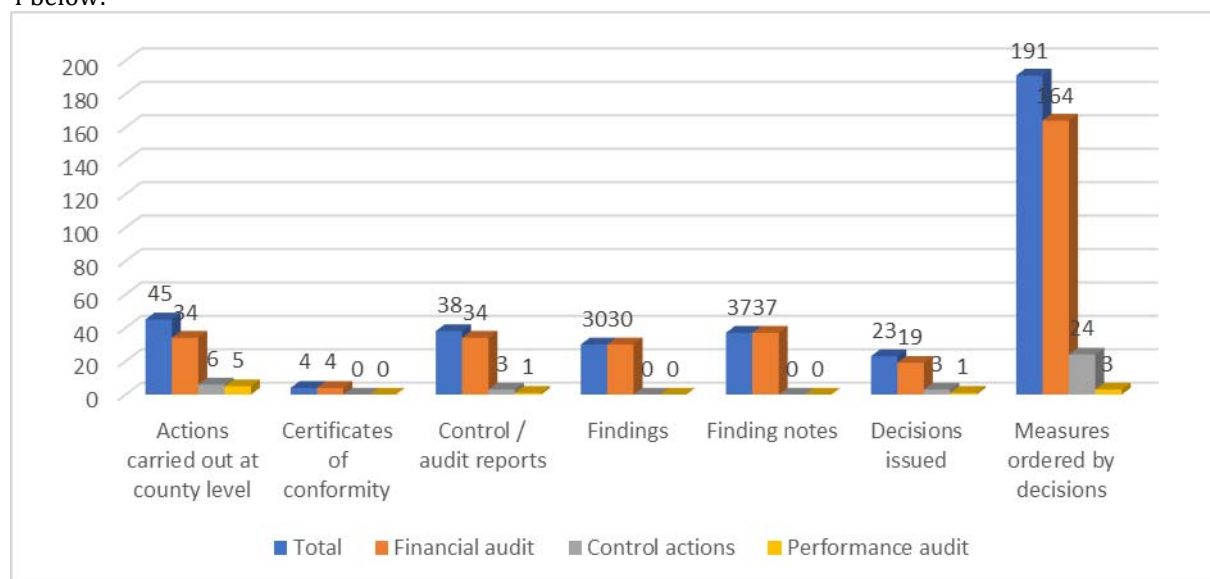


Figure 6 The activity carried out in 2019

Source: Report on local public finances 2019

Following the specific control activities and those of external public audit, the Chamber of Auditors of Galați County performed in 2019 an audit of 199 entities in Galați County, of which, 187 authorizing officers.

In the chapter "planning control actions", it is found that for 2019 – 56 actions were planned, with 15 less than in 2018 but 7 more compared to 2017.

As for the transfers of funds, it is noted that there were 37 transfers 2019, 26 in 2018 and 10 in 2017, the number being on an increasing trend from year to year.

During the financial audit missions performed, taking into account the deviations from legality and regularity, as well as the material errors detected, which have an impact on the reality and conformity of the financial statements, a number of 30 unfavorable opinions were formulated for 2019. Of these, 18 opinions were adverse, and the other differences were contrary. Compared to previous years, the situation is better, given that in 2018 the audit bodies formulated in all cases unfavorable (adverse) opinions, and in 2017 there were 23 cases with unfavorable opinions. It should be mentioned that in 2017, in two of the cases, the suspension of the financial audit action was requested.

It is found that in the period 2017-2019, the highest value of the estimated amounts of deviations found is recorded in 2017 in revenues and financial – accounting deviations, the difference being recorded in additional revenues and damages.

Table 2 Additional income and financial accounting deviations

Explanation	2017		2018		2019	
	Estimates	Accessories	Estimates	Accessories	Estimates	Accessories
Additional revenue	4.633	563	31.306	3.660	6.789	1.171
Prejudices	4.656	215	4.537	348	11.687	683
Financial accounting deviations	173.271		34.233		188.109	

### 3. Comparative Analysis of the Results of the Activity of the Chamber of Auditors

The specific activities of the Galati Chamber of Auditors are carried out according to the activity program approved by the Plenum of the Court of Accounts, by Decisions of the Plenum.

The main specific activities of the Galati Chamber of Accounts are materialized in financial audit actions, performance audit missions and control actions. In 2019, out of the total audit actions, most of the actions are those of the financial audit, followed by the performance audit missions.

Following an analysis of the financial audit actions carried out at the administrative-territorial units of Galati county, it is found that they were structured according to the verified entity, be it the main authorizing officer or the tertiary authorizing officer. Thus, in 2017, 15 main authorizing officers and 19 tertiary authorizing officers were audited.

On the line of performance audit missions, it is observed that audit actions were carried out, in chronological order of years, at a number of 2, 3 and 4 main credit officers, respectively, and the audit of the mentioned administrative-territorial units aimed mainly at:

- efficiency and effectiveness of the concession and rental of goods belonging to the public and private domain of the territorial administrative unit;
- evaluation of the economy of the resources allocated for public water and sewerage services, the efficiency and effectiveness of their supply to the population;
- the performance of the program on the provision of dairy and bakery products for school and preschool;
- how the administrative-territorial units forecast and achieve the budget revenues and plan the expenditures in relation to the estimated revenues;
- how to use the funds intended to finance the expenses regarding the county and communal roads.

The control actions from 2017-2019 were carried out at 7 main credit officers and 3 economic agents of local subordination and took into account: checks on the degree of indebtedness of the local budget, destination of loans, checks on the administration of public patrimony, the use of budget allocations, etc.

The deviations found following the controls performed during 2017-2019 by the Galati Chamber of Auditors, mainly referred to: unrealistic substantiation of the draft budget, improper functioning in the exercise of internal control, greater attention being paid to the management in conditions the legality, regularity and efficiency of public money, non-implementation of computer-assisted programs in terms of accounting and tracking of income receipts, lack of operational procedures in the field of accounting, weak involvement of the management of some entities in the line of financial management, etc.

In figures, the findings regarding the control / audit actions carried out in the period 2017-2019 for which deviations were found, highlighted a total number of 1,346 deviations, the value of which amounts to 465,961 thousand lei. Figure 5 below shows that the highest number of deviations was recorded in 2017, and the fewest deviations were recorded in 2019.



Figure 7 Findings identified as a result of the control / audit actions carried out in 2017-2019

*Source: conceived by the author.*

From the total value of the deviations found in the period 2017-2019, the financial-accounting deviations amounted to 395,613 thousand lei.

From the point of view of the impact on budgetary revenues and from the point of view of frequency, the most important deviations refer to establishing, highlighting and following the collection of revenues of

the general consolidated budget, in the amount and terms established by law, as well as the quality of the financial-economic management.

During 2017 – 2019, the situation of irregularities and deviations generating revenues in terms of impact on budget revenues and frequency of deviations found by the Galati Chamber of Auditors, it is noted that 2019 was one with good results compared to previous years, respectively a number of 47 cases were found, which represents 62% of all cases of deviations. The situation of income-generating irregularities and deviations in the period 2017-2019 is presented in figure 6 below.

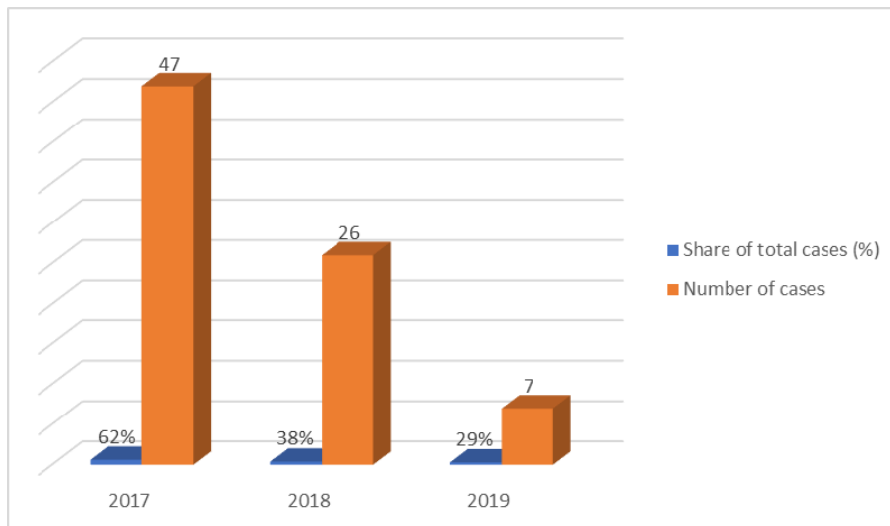


Figure 8 The situation of income-generating irregularities and deviations in 2017-2019  
Source: conceived by the author.

Regarding the deviations generating damages, irregularities were found regarding the non-observance of the legal regulations in making the expenses. Thus, in the period 2017-2019, the situation of the deviations generating damages found by the Galati Chamber of Auditors is presented in figure 7 below.

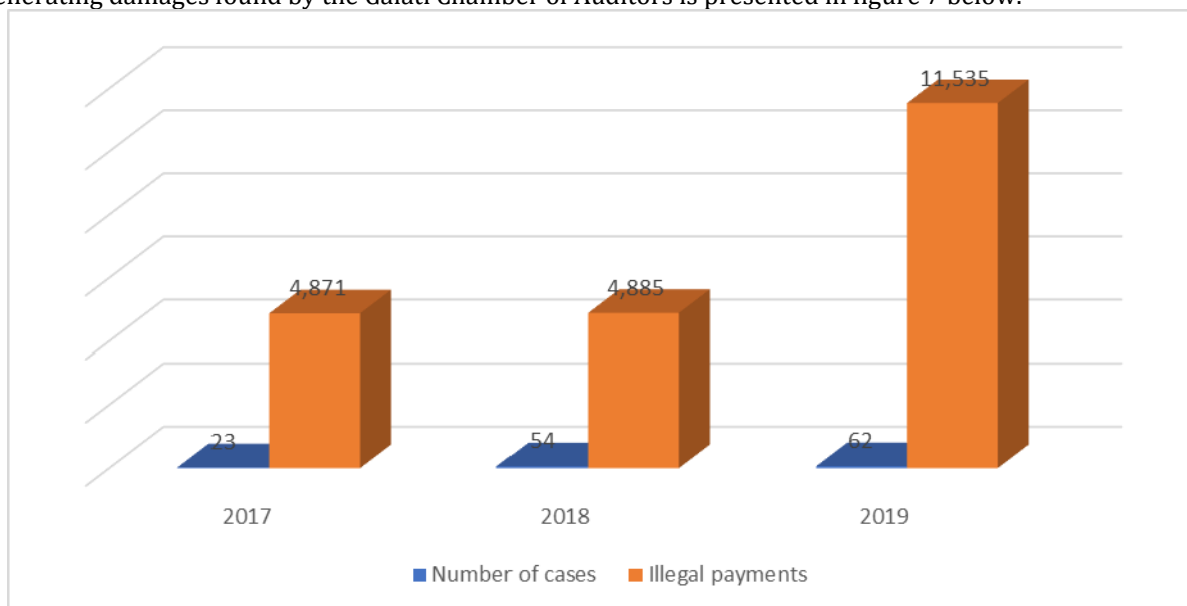


Figure 9 The situation of the deviations generating damages during 2017-2019  
Source: conceived by the author.

It can be observed that also in this respect, the year 2019 is the richest in cases of deviations generating damages, respectively the detection by the Galati Chamber of Auditors of illegal payments amounting to 11,535 thousand lei. The same cannot be said of 2017 when the number of cases generating damages was half compared to 2019.

#### 4. Conclusions

According to the current statute, the Court of Accounts can be qualified as an autonomous administrative authority, without being subordinated to any other state authority, in the sense of administrative law. It performs a complex function of control and jurisdiction, which gives it a high degree of



autonomy in its field of activity. Regardless of the deviations and illegal or inappropriate and inefficient behaviors, we believe that it must be understood that public money and public and private assets of the state are the preferred target of economic crimes, are the sources that fuel corruption, fraud, underground economy, robbery, destruction. and other anti-social and anti-economic phenomena and, in order to bring order to the economy, to create the preconditions for economic launch and to establish democratic rules (including in the economic field), order must be made in these essential areas.

All these irregularities affect the work and income of honest people, and their rehabilitation represents the major civic and national interests of Romanian society.

We can consider that the institution of the "Court of Auditors" has acted effectively since its commissioning in a short time, that it has firmly intervened to reduce deviations, from year to year, in terms of scope, consequences and danger, and, as a result, economic systems and public institutions have begun to function with fewer deviations from the legal framework, thus more action being taken to limit and prevent the phenomena of fraud, corruption, robbery and destruction.

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