

## The Financial-Accounting Audit in Pre-University Educational Institutions in Romania

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### Abstract

*The purpose of the research is to identify the specific elements of the audit carried out in educational institutions in Romania. The objectives of the research are to offer some practical suggestions for carrying out an audit process in the school and to identify the steps followed in a financial-accounting audit mission. The audit carried out in pre-university education institutions in Romania aims to improve management, by providing assurance services, which represent objective examinations of evidence, establishing whether they operate economically, effectively and efficiently, to identify deficiencies and formulate recommendations for their correction.*

**Key words:** audit, pre-university education institutions, control

**J.E.L. classification:** I21, I25, M42

### 1. Introduction

"AUDIT - professional examination of information for the purpose of expressing a responsible and independent opinion in relation to a particular standard." (Explanatory dictionary of the Romanian language, 2009).

Auditing is a process by which data collected within a public or private entity is evaluated. This process is carried out periodically and from an objective perspective. Within the pre-university education institutions in Romania, several types of audit are carried out, as follows:

**a. System audit** – detailed assessment of management and internal control systems, with the aim of establishing whether they are functioning properly (economically, effectively and efficiently) and formulating correction recommendations in case deficiencies have been identified;

**b. Performance audit** – examination of the established criteria for the implementation of the objectives and tasks of the educational unit; correlation with the evaluation of the results and assessment of whether the results are in line with the objectives;

**c. Regularity audit** – examination of actions on the financial effects on account of public funds or public patrimony, in terms of compliance with all the principles, procedural and methodological rules that are applicable to them.

Financial reporting by companies is strengthened with auditors report where they opine whether or not the financial statements give a 'true and fair view'. 'True and fair view' is in existence since a very long time as compared to various other terms. Since its introduction, 'true and fair view' had faced a number of criticisms. Past researchers had tried to explore this concept. None of them managed to give any additional information than was traditionally available in the books (Evans, 1996).

According to the provisions of the Education Law, pre-university education units are financed by several main credit authorities, namely the Ministry of Education and the town halls of communes, cities and municipalities, county councils, the General City Hall of the City of Bucharest and the town halls of the sectors of the City of Bucharest.

## 2. Theoretical background

Most of the information about auditing in Romanian schools can be found on the page of the Ministry of Education. The management accounting field is just slightly covered by the studies conducted in Romania. Most of the published papers are oriented towards the identification of the existing management accounting tools and techniques and their use in practice. None of these papers approaches the behavior of the accounting information providers and users (Grosu, 2014, p.15).

Considering this specificity, in pre-university education units the right to carry out audit activities belongs to the internal public audit departments within the Ministry of Education, the town halls, the county school inspectorates and the School Inspectorate of the Municipality of Bucharest, as well as the public audit departments internal of the pre-university education units, as the case may be.

County school inspectorates are secondary credit orders, whose main credit orders is the Ministry of Education. With regard to the units subordinated to the school inspectorate, which do not have an internal public audit department, the audit will be ensured by the internal public audit department of the credit orders with the immediately higher rank, respectively the school inspectorate. The internal auditors within the school inspectorates audit both their own activity and that of the pre-university education units, for the public funds whose main orders of credits is the Ministry of Education.

International accounting research revolves around two major models: a) the eminently conceptual research or on the theoretical content of Accounting, known also as "a priori" research; b) empirical research that includes studies of different material content, all having as a common denominator the testing of a series of hypotheses by actually observing the behaviors or gathering opinions from the users of the information, using quantitative analysis techniques, to conclude the type of accounting information most suitable for the decision-making process (Garcia, 2012).

## 3. Research methodology

For the realization of this work, observational research methods were used, in which the researcher does not intervene at all (observation, study of official documents, biographies). Within the pre-university educational institutions whose main credit orders are the mayors of the communes, cities, municipalities or sectors of the Bucharest municipality, the internal auditors from the county school inspectorates will carry out the following internal public audit and control activities:

- **Evaluation of the activity of the leaders** of educational units from the point of view of financial and human resources management;
- **Thematic checks** based on notifications received at the county school inspectorates or at the request of the Ministry of Education and other bodies empowered to request these checks;
- **Verifying the objectives and activities** financed from the state budget, in accordance with the legal provisions, as follows:
  - the inclusion in the funds allocated by the Ministry of Education regarding the development of reform projects co-financed by the Government of Romania and international financial bodies, the repayment of external loans, according to the program established by the projects, the interest payments and commissions on the external loans related to these projects;
  - the legality of granting scholarships for students from the Republic of Moldova, foreign students and ethnic Romanians abroad, according to the legal provisions in force;
  - the legality of making expenses related to the organization of exams, contests, national olympiads;
  - the legality regarding the record and realization of expenses related to the activity of improving the professional training of teaching staff;
  - the reality of school units' reports regarding the number of students/preschoolers by education profile, number of classes, etc., in order to establish the indicative average costs per student/preschooler;
  - approving the budget projects of the school units, according to the methodological norms in force;
  - the legality of financing school textbooks, in accordance with the methodology developed by the Ministry of Education;

- fulfilling the obligations regarding the transmission of reports regarding the quarterly and annual budget execution, according to annexes no. 2 and 3 of the Methodological Norms for the financing of state pre-university education (Ministry of Education).

The internal auditors from the internal public audit departments within the county school inspectorates have the right to exercise the audit activity, including the certification of the accounting balance sheet and the budget execution account of the educational units, based on written decisions of the mayors, but also with the agreement of the heads of the county school inspectorates.

In order to carry out the tasks assigned to the internal public audit departments, the county school inspectorates can request, during the year and especially during the accounting balance certification periods, internal auditors assigned to the subordinate educational units.

At the level of state pre-university education units and related units, internal auditors may or may not be employed. The internal public audit departments established at pre-university education units carry out audit tasks for the economic-financial activity of the respective unit and of the district units, as the case may be, regardless of the source of funding - state budget, local budget, own revenues, etc. Internal auditors from these departments can carry out internal public audit activities or thematic checks in other educational units as well, at the request of the county school inspectorates or the mayor. Regardless of the institution where they are employed, these internal auditors exercise their legal duties based on joint written decisions of the mayors and the heads of the county school inspectorates.

#### 4. Findings

The audit aims to collect and evaluate some evidence regarding the information, in order to determine and report the degree of compliance of the respective information with a series of predetermined criteria. This activity must be performed by a competent and independent person (Bunget, 2010, p.7).

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Next, we will present specific aspects of the financial-accounting audit process carried out in pre-university educational institutions in Romania. Financial accounting audit is the analysis of the accounts and finances of an institution. In its case, the data from which the analysis starts are those on the cash flow and on the capital structure. A thorough financial audit will ensure that all processes are consistent. The financial audit represents:

- a. **Statutory audit** - an audit of individual or consolidated annual financial statements, carried out by an external and independent (statutory) auditor;
- b. **Formulating an opinion on the financial statements** or some of their components.

The roles of the financial accounting audit in a school are as follows:

- Identifying errors in accounting documents;
- Verification of compliance with the legislation within the audited school;
- Finding possible fraud;
- Calculation of the solvency rate of a school;

- Review of cash flows;
- Examining how working capital is managed.

The role and mission of the financial accounting audit is to create a clear and coherent picture of the accounting situation and the performances of the audited school institution. This process is carried out to find financial-accounting measures in order to achieve the institution's goals.

The financial audit involves the examination carried out by a competent and independent accounting professional on the financial statements of an educational institution, in order to express a professional opinion of the financial situation as well as the results/performances obtained by this educational unit.

The financial audit is carried out by financial auditors, natural or legal persons, who have acquired this quality and are members of the Romanian Chamber of Financial Auditors. The purpose of the financial audit is to express an objective and independent opinion regarding compliance with generally accepted accounting regulations. The internal financial audit is an internal control and accounting system, intended to predict and avoid the possible risks to which the educational institution is exposed in terms of its own operation.

The audit missions carried out within the state school institutions on the subject of financial-accounting activity, aim, as a rule, to provide independent assurance to the management regarding the functionality of the internal control system attached to the audited activity, as well as formulating recommendations for its improvement. This type of audit is compliance/regularity audit.

The purpose of the audit action in an educational institution consists in:

- The completeness and correctness of the management of the accounting registers;
- Compliance with the general accounting principles;
- Compliance with the rules for evaluating assets and liabilities;
- Compliance with accounting regulations in accordance with European directives.

The objectives of the audit action can be diverse (Figure no.1).

Figure no. 1. The objectives of the audit action



Source: Own contribution

The main activities carried out within the institution are the following: organization of accounting registers; accounting management; managing the financial activity; preparation of the accounting balance sheet; preparation of the budget execution account; organization of the reporting system; organization and performance of preventive financial control; the reliability of the IT system; organization of document archiving.

**Internal audit techniques** that can be used within an educational institution. The verification is carried out in order to ensure the validity, reality and accuracy of the accounting records of the documents and the agreement with the laws and regulations in force, as well as the effectiveness of the internal control through the following verification techniques:

- comparison: to confirm the identity of some information, after obtaining it from two or more different sources;
  - examination: to detect errors and/or irregularities;
  - recalculation: verification of calculation algorithms and mathematical calculations;
  - agreement: to carry out the process of matching two categories
- different registrations;
- confirmation: for requesting information from several sources independently for the purpose of validating them;
  - the guarantee: to verify the reality of the transactions registered starting from when examining records for supporting documents;
  - follow-up: to verify the procedures from the supporting documents to the registered article in order to establish the reality of the registration in totality of transactions.

**Other audit techniques:**

- Physical observation: in order to form an own opinion regarding the way of drawing up and issuing documents;
- The interview, notes of relations: it is carried out by the internal auditors by interviewing the audited, involved and interested persons and the information received, which must be supported by documents. For any additional explanations, written correspondence notes are requested.
- Analysis: consists in decomposing an entity into elements, which can be isolated, identified, quantified and measured separately.

The following *internal audit tools* can be used in carrying out the auditing process within educational institutions:

- *Acquaintance questionnaire*: to obtain information about the socio-economic context, internal organization, functioning of the audited school/structure;
- *Internal control questionnaire*: guides internal auditors in the activity of objective identification of dysfunctions and their real causes;
- *Checklist*: used to establish the regularity conditions that each auditable field must meet. It includes a set of operations to be completed by the auditor to analyze the internal control activities incorporated in the procedures, the existence of responsibilities for their performance and allows the establishment of compliance tests when various dysfunctions are reported.

The information necessary to audit the financial-accounting activity can be collected with the help of tools such as: the legal and regulatory framework applicable to the financial-accounting field; organizational chart of the educational institution; the organization and operation regulations of the educational institution; job descriptions; the written procedures that describe the activities carried out within the department; previous internal audit reports; other previous reports, notes, files that relate to this topic.

*The auditable objects* in the case of the audit of a pre-university education institution can be the following: Journal-register, Inventory-register, Ledger, Accounting of fixed assets and investments, Accounting of materials and materials, including those of the nature of inventory objects, Accounting of debts and receivables, Treasury accounting, Personnel expense accounting, Subsidy accounting, Transfer accounting, Inventory results accounting, preparation of trial balances, technical-operational records, payment/collection of debts, respectively receivables, activity of establishing and reporting taxes and fees owed to the state, the activity of obtaining extra-budgetary income, etc.

*In terms of risk analysis, several possible risks can be generated for each auditable object.* For the *Journal-Register*, these could be: the non-existence of written procedures/monographs on how to draw up the Journal-Register, failure to update the Journal-Register, erroneous completion of the Journal-Register with the help of computer systems for automatic data processing. For the *inventory-register*, the risks can be: the absence of written procedures/monographs on how to draw up the inventory-register, failure to designate the person responsible for managing the inventory-register, incorrect completion of the inventory-register, failure to systematically update the inventory-register.

*The risks attributed to the Big Book can be:* the incorrect completion of the Big Book register, the non-existence of written procedures/monographs on how to draw up the Big Book register, the non-designation of the person responsible for managing the Big Book register. A risk for the accounting of fixed assets and investments within the school unit could be the lack of written procedures/monographs regarding the accounting records of fixed assets and investments. *Other risks may be the following:* the procedures/monograph regarding the accounting record of fixed assets and investments is not known by the assigned personnel; not designating the persons responsible for managing the accounting records of fixed assets and investments; the erroneous highlighting of payments/expenditures made with the acquisition of fixed assets or the construction of objectives (custody, partial and final receipts, etc.).

***The accounting of subjects, materials including those of the nature of inventory objects within the educational institution can generate risks such as:*** the absence of written procedures/monographs regarding the accounting records of subjects, materials including those of the nature of inventory objects; the procedures/monograph regarding the accounting record of materials, materials including those of the nature of inventory objects is not known to the designated personnel; not designating the persons responsible for managing the accounting records of materials, materials including those of the nature of inventory objects; the erroneous highlighting of payments/expenditures made with the acquisition of materials, including those of the nature of inventory items; the erroneous highlighting of acquisition costs, processing and output value, by not respecting the principle of permanence of evaluation methods.

***Regarding the accounting of debts and receivables of a school, the associated risks may be the following:*** the absence of written procedures/monographs regarding the accounting record of debts and receivables; the procedures/monograph regarding the accounting record of debts and receivables is not known by the personnel assigned to its management; not designating the persons responsible for managing the accounting records of debts and receivables; failure to update amounts owed or to be collected; erroneous registration in accounts other than those related to the nature of these operations.

Treasury accounting can generate risks such as: the lack of written procedures/monographs regarding the organization and operation of the cash register; the non-existence of written procedures/monographs regarding the accounting records of cash and bank operations; the procedures/monograph regarding the accounting record of cash and bank operations is not known by the staff assigned to its management; not designating the persons responsible for managing the accounting records of cash and bank operations; the erroneous registration in other accounts of the amounts processed through the treasury, banks or cashiers; lack of supporting documents attached to account statements or to the cash register tab; not appointing the persons responsible for the systematic control of the cashier's activity; failure to ensure the security of the cashier's space (Financial Audit Manual).

***Regarding the accounting of expenses with teaching, auxiliary teaching and non-teaching staff,*** we can list the following risks: the absence of written procedures/monographs regarding the accounting record of staff expenses; the procedures/monograph regarding the accounting record of personnel expenses is not known to the personnel assigned to its management; not designating the persons responsible for managing the accounting record of personnel expenses; erroneous recording in the accounting of personnel expenses, etc.

***The risks associated with the accounting of subsidies of an educational institution*** can be: the absence of written procedures/monographs regarding the accounting records of subsidies; the procedures/monograph regarding the accounting record of the subsidies is not known by the staff assigned to its management; not designating the persons responsible for managing the accounting records of the subsidies; erroneous registration of the subsidy received; the lack of supporting documents for the registration of subsidies in the accounting.

***The accounting of transfers*** made in an educational institution can generate risks such as: the absence of written procedures/monographs regarding the accounting records of transfers; the procedures/monograph regarding the accounting record of transfers is not known to the assigned personnel; not designating the persons responsible for managing the accounting record of transfers; erroneous registration of the amounts transferred, differences between the amounts transferred and those highlighted; lack of supporting documents regarding the transfers. The information provided

by management accounting is intended, as a rule, for the management of patrimonial units, from different ones organizational levels, for making decisions that allow adaptability of patrimonial units to competitive market conditions (Feleagă, 1997).

**For the accounting of the inventory results, there are risks such as:** the lack of written procedures/monographs regarding the accounting records of the inventory results; the procedures/monograph regarding the accounting record of the inventory results is not known to the designated personnel; not designating the persons responsible for managing the accounting records of the inventory results; the erroneous highlighting of the differences resulting from the inventory, of the balances of the inventoried accounts in the Inventory Register; erroneous establishment of the balances of the inventoried accounts in the Inventory-Register; non-transmission to debtors of account statements regarding the amounts owed, etc.

According to Romanian legislation, diminishing **balance method and accelerated method** are regulated by the Resolution no. 909/1997 approving the Methodological Norms for applying Law no. 15/1994 regarding the depreciation of fixed tangible and intangible assets amended by Government Ordinance no. 54/1997 and Fiscal Code and are exemplified in the Methodological Norms of the Fiscal Code. Fiscal Code allows the use of accelerated method only for technological equipment, respectively machines, tools and plants, as well as computers and their peripheral equipment, for building is available only the straight line method and for the rest of the PPE there is the possibility to chose between straight line method and diminishing balance method - Law 571/2003 in conjunction with the HG 44/2004 regarding the Fiscal Code and Implementing Rules (Buculescu, 2014, pp. 774-799).

**The establishment of the risk level and the total risk score** is carried out on the basis of the information and documents found within the pre-university education institution in the management, accounting, administration and secretarial departments, as well as the personal expertise of the auditors in the field and information from the mass media or from the Internet. At the same time, internal auditors, depending on the number of people assigned to the mission, as well as the time, can establish the total score of the risks of the respective operation/activity, based on the calculation formula (Figure no.1).

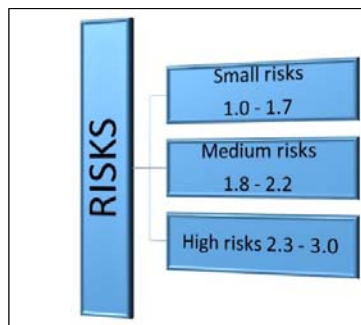
Figure no. 1. Risk calculation formula

<p><math>P_t</math> = total score;</p> <p><math>N_i</math> = risk level for each criterion used;</p> <p><math>P_i</math> = weight of risk criteria.</p>	$P_t = \sum_{i=1}^n N_i \times P_i$
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Source: Own contribution

Risks can also be grouped into three categories (Figure no.2).

Figure no. 2. Risks categories



Source: Own contribution

The development of the document regarding the establishment of the risk level and the risk score in a school presents a relatively high degree of subjectivity and for this reason internal auditors can make changes throughout the audit mission, especially during the on-site intervention stage, according to the information on who collects them. As a rule, the weight of medium risks should be below 10%, because this denotes a choice on the part of the auditors, regarding the category of risks in which to include them, considering that the audit will include high and medium risks as significant risks.

Next, it is necessary to prepare the document regarding the ranking of operations according to *the risk analysis*, which divides the risks, grouped by auditable objects and objectives, into 3 risk categories, small, medium and large, established in the previous phases of the Risk Analysis procedure. Small risks will be eliminated from the audit, and large and medium risks, considered significant risks, will enter the risk ranking phase and will be taken over in the strengths and weaknesses table.

In the phase of ranking the operations according to risks, in which only the significant risks will enter, the document Table of strengths and weaknesses will be developed, through which auditable objects will be identified, evaluated as strengths, which will be eliminated from the audit, and the other auditable objects considered to be weak points will still remain in the audit (Financial Audit Magazine).

The evaluation of the operations identified as strong points is carried out by assessing the functionality of the internal control system of the audited activities, which thus limits the effect of the risks associated with them. Next, we will present a model of the structure of the Table of strengths and weaknesses (table no. 1).

Table no. 1 Table of strengths and weaknesses

No.	Objectives	Auditable objects	Significant risks	Points	Consequence of internal control functioning-non-functioning	Degree of trust of the internal auditor in internal control	Remarks
1.	ORGANIZATION OF ACCOUNTING REGISTERS						

Source: Own contribution

## 5. Conclusions

Carrying out a financial-accounting audit within a pre-university education institution will provide a summary of all the institution's activities, being of great help to the management in detecting possible errors in the accounting registers. In many situations, such an audit reveals irregularities that are difficult to identify by other methods. Carrying out a financial-accounting audit in a school unit has a significant contribution to institutional development, adding value to the entire activity carried out. The information obtained from this audit is the basis for decisions regarding the correct and balanced development of the school's financial plan. In other words, the financial-accounting audit represents the main pillar in the adoption of institutional development strategies by the management department.



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