Orientation of Public Audit Missions to the IT Activity Carried Out within the State Authorities/Entities

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Abstract

The exercise of public audit in Romania is the responsibility of the Supreme Audit Institution (the Court of Accounts, which exercises external public audit) and the special internal audit structures found in central and local public authorities/entities. With the present paper we bring to the reader’s attention some aspects derived from the orientation of the public audit activity on the IT-related activity carried out by these authorities/entities. The authors refer to the information from the activity reports of the internal audit structures at the level of central and local public authorities/entities, submitted to the Supreme Audit Institution, as well as to some of its own findings, resulting from the assessment of the managerial internal control systems (including internal audit) carried out in the framework of the audit actions carried out at public authorities/entities.

Key words: public audit, public authorities, audit structures, IT area, audit findings

J.E.L. classification: D73, H83, H89, M42, M48

1. Introduction

A guiding principle of Romania's Digital Agenda (2020), which has an important effect on all areas and lines of action, is the promotion of citizen - and business - centred initiatives. According to it, every initiative or project of public institutions in the state administration should take into account that its ultimate goal is the provision of quality services with added value for citizens and economic agents. Therefore, „Every institution providing a public service should identify and meet the needs of its customers. These institutions should include in the process of optimising the services they offer both customer requests and the newest and most innovative existing practices, so as to provide public services with real benefits. Public institutions should make it easier for their customers to find, access and use public services in the most efficient and transparent way.” (MSI, 2015).

In the same context, it is equally important to promote legislative projects that support ICT initiatives, especially as „legislative gaps” are often identified in the use, operation or maintenance of IT systems. Moreover, the challenge of creating the right climate for change requires a legislative framework that defines as clearly as possible the transition to the new IT-centric paradigm.

The need to increase the transparency of public administration acts, through the computerisation of public services, and to get closer to what is meant by efficient public administration (lowering the costs of public administration) has led the state administrative institutions to set up and develop their own IT departments. Obviously, the situation is in a continuous dynamic and things are by no means simple (Figure no. 1).
Figure no. 1. The link between electronic public services, IT systems and stakeholders

Their work, due to the budgetary effort involved (logistics, human resources, etc.), is a priority objective of public audit. Therefore, our paper addresses the issue of public audit orientation (internal and external) on IT-related activity in state institutions. More specifically, we focus on some aspects recently found by the Supreme Audit Institution of Romania in relation to internal public audit assignments - separately: the work of internal public audit structures at the level of central and local public administration authorities - which focused on IT sector activity.

2. Theoretical background

Most of the published works on public auditing in Romania include topics related to history, norms, institutions, standards or techniques/procedures for performing specific assignments. Important works by recognized scholars adequately address the issue of internal public audit (Dascălu & Nicolae, 2006; Munteanu, 2010; Ionescu & Nica, 2021) and - separately - that of external public audit (Ispir, 2008; JRC, 2017; Trincu-Drăgușin & Ștefănescu, 2020). Such themes have also been addressed by us in previous years (Bostan, 2010; Bostan et al., 2021). Of course, studies on the boundaries between public internal audit and financial audit or comparative analysis between these forms of audit, as well as on specific procedures related to the general framework for conducting public audit, are important, but the authors of this paper take a different approach. Specifically, they develop the issues arising from the recent orientation of public audit engagements towards IT activity carried out within state authorities/entities - local and central - in view of present-day imperatives. In particular, „full integration into the information society” is frequently brought up, recognising that this is also a „weighty” imperative for central and local public administration authorities in Romania.
We consider the above-mentioned work to be of the utmost importance, but our view is further justified by the fact that it has become essential to “rethink and adapt approaches to IT, both in terms of equipping staff with reliable and well-performing IT systems and in terms of reviewing staff perceptions of the need for and effects of widespread use of IT” (JRC, 2019). It is precisely for this reason that we believe that public audit is intended to contribute constructively to the integration of Romanian public administration authorities into the information society to the greatest extent possible.

3. Research methodology

The research around the present topic (“Orientation of Public Audit Missions to the IT Activity Carried out within the State Authorities/Entities”), involves the investigation of several works in the field of public, internal and external audit, highlighting consequently a number of elements specific to the descriptive method.

We base our documentation on the regulatory framework in force, applicable to public audit (internal and external) within state institutions, in particular: Law no.672/2002, republished, on internal public audit; Romanian Government Decision (HGR) no. 1086/2013 for the approval of the General Rules on the exercise of internal public audit activity; Romanian Government Ordinance no. 29/2022 for the amendment and completion of Law no. 672/2002 on internal public audit. We also refer to the reports of certain prestigious institutions, which contain relevant and valuable data in support of what is presented here, in order to give full credibility to the aspects we present in the paper. In particular, we consider some reports of the Supreme Audit Institution (Court of Accounts of Romania) and the Ministry of Finance (UCAAPI/Central Harmonisation Unit for Public Audit), as well as documents on the development/implementation of audit policies/programmes/strategies for the government sector.

4. Findings

4.1. The framework for internal public audit

Auditing cannot - by any means - be an end in itself, but is in fact “an indispensable part of a regulatory system designed to detect deviations from accepted standards and breaches of the principles of legality, efficiency, economy and effectiveness of financial management early enough to make it possible to take corrective action in individual cases, to hold those responsible to account, to obtain redress or to take preventive measures so that such deviations do not happen again.” (INTOSAI, 1977).

Public internal audit work organised and carried out in all public entities is designed to anticipate and prevent errors and omissions, fraud and irregularities at an early stage (RP, 2002; RG, 2003, 2012, 2013, 2014).

The scope of public internal audit encompasses all activities carried out in public entities - at least once every 4 years (RG, 2022) to achieve their objectives, including the assessment of the system of managerial internal control. The figure below (2) is suggestive for representing a model of the „three lines of defence” for the effective functioning of risk management and managerial internal control.

Done properly, this activity (functionally independent and objective, designed to add value and support public entities in achieving their objectives, with the main aim of improving their management through assurance and advisory activities) can generate optimal and efficient use of external public audit resources.
The necessary framework for the development of internal audit activity in the public sector in Romania is provided by the Central Harmonisation Unit for Public Internal Audit, organised at directorate level within the Ministry of Finance (MF, 2017). It methodologically guides, coordinates and supervises the implementation and uniform conduct of internal audit in the public sector.

4.2. Deficiency issues identified by the Supreme Audit Institution of Romania on public internal audit missions focused on IT activity. Insufficient/non-relevant objectives and formal findings

Law no. 94/1992 on the organisation and functioning of the Court of Accounts stipulates, among other duties, that the institution in question evaluates the own financial control and internal audit activity of the audited entities, having the obligation to request and use the reports of the other bodies with financial, fiscal, internal audit and banking inspection duties. According to the above-mentioned law, public entities subject to the control of the Court of Accounts are obliged to submit to it, by the end of the first quarter of the previous year, the report on the conduct and implementation of the internal audit programme.

This explains why this institution assesses the internal management control system (IMS) at the level of auditees in order to analyse the ability of the IMS (including internal audit) to prevent, detect and correct possible errors/misconduct.

This assessment is based on reports submitted to the Court of Auditors by the audited public entities - central and local. Central public entities (1,675) have the following structure: 20 ministries; 1,438 units subordinated to ministries; 45 autonomous administrative authorities (including those with special format reports); 172 units subordinated to autonomous administrative authorities (MF, 2022a). Of the 1,675 central public entities, 1,538 structures have established an internal public audit function, which represents a 92% establishment rate of internal public audit.

Trends in the establishment of public internal audit in central government are shown in Table no. 1.
Table no. 1. Trends in the establishment of public internal audit in central government

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Average growth annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of institutions public who have compulsory the establishment of the function of internal public audit</td>
<td>1.441</td>
<td>1.584</td>
<td>1.675</td>
<td>+7.83%</td>
</tr>
<tr>
<td>Number of institutions public who have established the position of internal public audit</td>
<td>1.284</td>
<td>1.392</td>
<td>1.538</td>
<td>+9.45%</td>
</tr>
<tr>
<td>Number of institutions public who have established the position of internal public audit by structure Own</td>
<td>792</td>
<td>792</td>
<td>798</td>
<td>+0.19%</td>
</tr>
<tr>
<td>Number of institutions public who have established the position of internal public audit through the organ hierarchically superior</td>
<td>492</td>
<td>600</td>
<td>740</td>
<td>+22.64%</td>
</tr>
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Of the 798 internal public audit structures at central government level (2021), about 85% (683) have established departments. In this organisational formula, no management posts can be foreseen, which leads to shortcomings in the exercise of the internal public audit function, as well as difficulties in implementing the methodology for carrying out missions.

As regards the organisation of internal public audit in the administrative-territorial units, we show that the situation is much worse here, as there are still public entities where internal public audit is not organised (942 of the main authorising officers of local budgets, i.e. 29%) (Figure no. 3).

At local government level, regardless of the type of authorising officer (main or subordinate entity), there are a total of 12,083 institutions that are obliged to set up the internal public audit function; of these, the internal public audit function has been set up in 10,784 structures (89%). The establishment of internal audit has been achieved as follows (MF, 2022b): (a) 836 entities have set up internal audit through their own internal public audit structures. In total there are 894 internal audit structures, to the 836 adding 58 internal audit structures in cooperation system; (b) 4,764 entities where internal audit is provided by the superior hierarchical body; 5,184 entities have established internal audit through cooperation system. It should be noted that 7 entities have established internal audit through service contracts (illegal situation) (MF, 2022b).

The activities audited by the internal audit structures - central and local - were grouped by areas: budgetary, financial-accounting, public procurement, human resources, IT, legal, European funds and entity-specific functions.
In this paper, the authors focus on IT, i.e. on those activities/elements that process data and information, where public entities need to set clear and precise objectives in their development and management strategies, not only in terms of equipping/implementing with well-performing and reliable IT systems, but also in terms of reassessing and shaping the perception of their own employees about the usefulness, limits and effects of expanding the use of IT.

4.3. Findings of the internal public audit structures at central government level in relation to the objectives set

The main objectives set and addressed by Public Internal Audit, with regard to the IT area (Table 2), were considered insufficient/inadequate to the actual requirements by the Court of Auditors. This is why the Supreme Audit Institution assessed that „in the audit of the IT sector, the focus was usually on organisational aspects, the existence of the procedural framework, the existence of administrative acts, etc., and less, or not at all, on aspects relating to: the effectiveness of IT systems; the reduced involvement of management in providing the necessary resources for the IT system; the negative impact of dysfunctions in the IT sector on the achievement of the objectives of public entities and on the quality of services and relations with citizens; websites incompletely designed in terms of transparency and difficult to access (...)” (JRC, 2018).

<table>
<thead>
<tr>
<th>Internal audit objectives for IT</th>
<th>Matters to be included in the internal audit objectives for IT</th>
</tr>
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<tbody>
<tr>
<td>• Development, approval and implementation of IT strategy</td>
<td>• The real reasons for the lack of technical, material and staff resources for the IT departments, when these departments are a priority and budgetary constraints are not severe</td>
</tr>
<tr>
<td>• Ensuring the organisational, staffing and functional framework necessary for the activity IT</td>
<td>• Insufficient justification for the type and performance of IT systems purchased, in terms of integration and interconnection possibilities with other existing systems</td>
</tr>
<tr>
<td>• Organisational structure; functions and staffing; duties, powers, and responsibilities; technical, human and material resources available, etc.</td>
<td>• Failure to resolve in a timely and effective manner incidents occurring in the normal operation of IT systems, causing interruptions and blockages in the activity of some departments</td>
</tr>
</tbody>
</table>
• Organisation, implementation, administration/maintenance of the IT system: infrastructure; software adequacy; e-mail; website; transparency, etc.
• How IT-specific internal procedures are developed and implemented, including procedures for ensuring IT security
• Absence of contractual clauses transferring ownership, after a certain contractual period, of IT systems software purchased from specialised firms - to ensure business continuity
• Ensuring specific IT activity at a minimum level, on the basis of service contracts with specialised economic operators (outsourcing), thus not achieving all the tasks/objectives set out in the ROF for the IT department
• Non-compliances concerning the web pages: they do not contain all the information and documents required by the applicable legal regulations on free access to information of public interest; they are unclear and incomplete in content; difficult to access, etc.
• Non-existence/inconsistency/non-implementation of operational procedures for the online receipt of petitions on the website, with the system automatically generating a reply to the petitioner indicating the registration number and the deadline for resolution and response
• The use of software in the internal work of public entities without holding licences

Source: Prepared by the authors based on information (JRC, 2018)

The findings of the public internal audit structures at central government level, in relation to the objectives set, cover a whole range of issues. These range from the lack of operational procedures, incomplete development, communication and implementation of IT strategies and policies, to severe dysfunctions in the organisation and functioning of IT departments, including the lack of disaster recovery plans (JRC, 2018).

Difficulties have arisen in human resources management due to shortages of specialist staff, staff turnover, and recruitment affected by budgetary restrictions. The organisational documents of the IT departments often do not fully and adequately define the tasks, responsibilities and scope of the posts, and there is often a lack of training/upgrading plans for IT staff, or their content is incomplete or inadequate, or they are not implemented due to lack of funds.

The above-mentioned report also refers to certain aspects of non-compliance with regard to the organisation, implementation, administration/maintenance of the IT system, while noting the quasi-absence of internal operational procedures for IT activity, including procedures for ensuring IT security.

To a considerable extent, IT equipment is insufficient and morally/physically worn, non-performing and not adapted to the objectives and needs of the entities and internal users (as well as software), and server space is inadequate. Another shortcoming is that there are incompatibilities between some operating systems and the applications used, as well as situations where IT equipment does not ensure the recovery of information in case of risks.

4.4. Deficiencies reported by the internal public audit structures of local government authorities

A report by the Supreme Audit Institution of Romania revealed that internal public audit missions carried out at the level of local public administration authorities were unsatisfactorily addressed, with IT occupying the last place (2%) in the total number of areas audited (JRC, 2019).

The objectives of these IT missions included issues related to ensuring organisational, technical, material and personnel conditions. Emphasis was also placed on the development of and compliance with the specific internal procedural framework - procedures for ensuring IT security, IT system maintenance, business continuity and the website.

As regards the IT-related weaknesses reported by the internal public audit structures of local government authorities, we refer to only some of them. Thus, according to the aforementioned document, the main findings are related to the lack of elaboration of strategies for the computerization of the entities, the lack of procedural framework for the IT domain, the poor organization and functioning of the IT departments, deficiencies related to the organization, implementation and administration of IT systems, the lack of an internal information security policy/strategy. Table 3 details these findings.
Table no. 3. Breakdown of internal public audit findings related to IT at local government level

<table>
<thead>
<tr>
<th>Deficiencies</th>
<th>Details</th>
</tr>
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</table>
| (1) Regarding the strategies for the computerisation of entities | • Failure to develop strategies for the computerisation of entities  
• Existence of strategic planning documents with incomplete content or non-implementation |
| (2) On the internal procedural level | • Lack of a procedural framework for the IT domain for carrying out specific activities and for updating the related operational procedures; incomplete content of these procedures  
• Failure to formally designate the person responsible for identifying and managing risks to IT activity  
• Failure to identify associated risk areas or incomplete identification and non-inclusion in the risk register |
| (3) Organisation and functioning of IT departments | • The existence of IT tasks and responsibilities not included in the job descriptions, such as drafting and updating procedures, updating the list of specific regulations, monitoring the implementation of IT security policy and the protection of personal data processing  
• Failure to maintain a balance of tasks, skills and responsibilities in IT-specific posts  
• Failure to ensure conditions for the continuity of IT activities in situations unforeseen  
• Lack of procedural framework and specific equipment for data recovery in cases of risk  
• IT equipment that does not ensure information retrieval in cases of risk |
| (4) Organisation, implementation and IT systems administration | • Undersized IT systems, equipment and applications inadequate, non-performing, morally worn out and not adapted to the needs of the entities and staff  
• The existence of unsuitable premises for servers and other IT equipment, in terms of size, air conditioning, burglar and fire alarms  
• Failure to develop a map of the existing IT network with the location of the servers, the desktop systems, routers, access points and printers  
• Absence of maintenance contracts for IT systems, and of records related to its implementation  
• No website or not updated  
• Failure to publish or update all information concerning free access to information of public interest, as well as information of general interest specific to certain areas and activities falling within the competence of administrative-territorial units |
| (5) Information security | • Absence of an internal information security policy/strategy  
• Failure to develop, implement or enforce procedures to ensure IT security - Poor management of usernames and passwords |

Source: Authors' elaboration based on information (CCR, 2019).

5. Conclusions and recommendations

IT has been relatively neglected as a real focus of internal public audit. Beyond the low number of assignments that have targeted it, its approaches have focused on organisational elements, to the detriment of the essential ones. To a lesser extent, in-depth approaches have been included related to management involvement in supporting and developing IT systems, determining the impact of IT on the achievement of objectives, the quality of services and the relationship with the citizen, the performance of IT systems and the compatibility of applications used at central government level. Even so, the shortcomings found by the Internal Audit Capability were significant and numerous: from a lack of operational procedures, incomplete development, communication and implementation of IT strategies and policies, to severe dysfunctions in the organisation and functioning of specialised departments.
In addition, there are multiple situations in local public administration authorities related to undersized IT systems, insufficient, non-performing, morally worn-out and inadequate IT equipment and applications, which are not adapted to the needs of the entities and staff. Often, in the case of the same authorities, it has been found that there are unsuitable premises for servers and other IT equipment, in terms of size, air conditioning, burglar and fire alarms. The audit recommendations have been taken on board by the heads of public entities, but their implementation depends on the level of resources allocated.

The Supreme Audit Institution of Romania suggests that in the future, the IT area in central and local government should be regularly addressed in internal audit actions. At the same time, it is recommended that the objectives should include aspects relating to the justification of the types and performance of the IT systems purchased, taking into account the need for interconnection between operating systems or between the applications involved, and not forgetting to consider the opportunity, economy, efficiency and effectiveness of outsourcing the specific IT activity on the basis of a service contract with specialised economic operators.

Regarding the limitations of the research - the relatively descriptive nature of the research, as well as the fact that the authors' references refer to a period known as one of multiple and overlapping crises, starting from all this we aim to come up with updated results, possibly in reference intervals not marked by economic crisis.

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