

EXTERNAL PUBLIC AUDIT, AN IMPORTANT PILLAR IN THE GOOD FINANCIAL MANAGEMENT OF PUBLIC BUDGETS AS WELL AS IN COMBATING

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Abstract:

The external public audit, plays one of the most important roles in ensuring the efficient management of public funds and contributes to the identification, combating and prevention of financial fraud, a contribution that can be evaluated by analysing deviations with financial implications on the public budgets. The objective of this paper is to highlight the existence of direct proportionality between the quality of public audits with the value of identified deviations.

After reviewing the specialized literature, we used the qualitative methodology to synthesize the data contained in the Annual Public Reports on local public finances published by the Court of Accounts of Romania and we analysed factors as additional income, damages, referrals to criminal investigation bodies. The sample includes the territorial administrative units of the counties and municipality 's of Romania.

The results of the study revealed that, although through its audit actions, the Court of Accounts of Romania identified deviations like additional income or damages with a constant value for the audited years, the referrals to the criminal investigation bodies are in a decrease.

At the end of the paper the conclusions, future directions and limitations of the study are presented.

Key words: audit, incomes, damages, public sector, fraud, territorial administrative units.

JEL classification: M41, M42, M41, M48

1. INTRODUCTION

The purpose of the external audit carried out within the public sector is to identify deviations and/or frauds in the efficient management of public resources, a fact that over time will lead to better management and allocation of resources in this sector as well as increasing citizens' trust in public institutions, as reputation is a valuable intangible asset (Boon & Salomonsen, 2020). Also, the quality of external audits is directly proportional to the reduction of identified deviations, following the increasing compliance of public entities with the applicable legal framework.

The purpose of this work is to highlight the existence of direct proportionality between the quality of public audits, the number of deviations identified, the degree of compliance of the entities with the applicable legal framework, better management of funds, as well as, especially with the fight against financial fraud.

To highlight this relationship as best as possible, we used the data contained in the Annual Public Reports on local public finances published by the Court of Accounts of Romania and the analysis of relevant factors contained in them such as additional income, damages and referrals to criminal investigation bodies. The sample includes the territorial administrative units of the counties of Romania, as well as the territorial administrative units with the rank of the municipality within each county, less the territorial administrative unit of the municipality of Bucharest. The results of the study revealed that although, through its audit actions, the Court of Accounts of Romania identified deviations of the nature of additional income or relatively constant damages for the audited budget years, the number of referrals to criminal investigation bodies is quite low and decreasing.

In the paper, after reviewing the specialized literature, the methodology used to synthesize the data regarding the identified entities and deviations is presented, then the results obtained are presented, and at the end of the paper the conclusions, future directions and limitations of the study are presented.

2. LITERATURE REVIEW

Public sector auditing is a cornerstone of effective corporate governance. However, its effectiveness largely depends on the scope of the audit performed in public sector agencies.

Public sector auditing is a vital activity in democratic states, underpinning the relationship between the government and the governed, the executive and the legislature, and various parts of government. (Ferry et al 2022), the reputation of public sector organizations is increasingly formed through Word of Mouth (WOM), where citizens and stakeholders share their experiences with others online and offline (Luoma-aho, V, 2021).

Fraud of public budgets is a problem that also affects the budget of the European Union, which is defrauded both in terms of revenues and expenses, which means that smaller amounts are paid to the budgets than those normally due, and in terms of expenses, it is found that some sums granted by the Community bodies as subsidies and aid often end up taking other destinations than those following the purposes for which they were granted and with the interests of the Union (Ghinea, 2012), and in-depth knowledge of corruption processes and what facilitates them is hampered by the hidden nature of the phenomenon (Lino et. all,2022).

The advent of accrual budgeting shaped a reconfiguration of accountants' identities. Politicians have made public sector accountants the central entity of commitment budgeting and thus responsible for increasing the efficiency of the public sector (L. Ionescu, 2017). The government is bound to render services to the community with full confidence as well as to perform the duties of representatives of the people effectively and efficiently. Many tasks must be performed by the government for the community, one of which is to ensure the stability of the state finances in a good and responsible manner. The quality of public financial management has a long-lasting effect on the level of corruption, through the process of behavioural and institutional changes in the public sectors. Sound public financial management could gradually change the attitude of civil servants towards corrupt and fraudulent practices and encourage the improvement of standards, regulations, procedures and general institutional aspects that can reduce the opportunity to abuse power or authority for private benefit (Sugeng & Triwibowo, 2019). The role of management in preventing fraud has become important in recent decades, and the importance of auditing in combating corruption is increasingly revealed. There is a strong link between fraud and corruption, accelerated by modern electronic systems and platforms (Ionescu, 2017).

The results of fraud affect its economy and government, leading to poor service delivery. Successfully tackling fraud and corruption requires the coordination and collaboration of multiple institutions involved, from all spheres of government, civil society organizations, business people, the private sector and communities (T. Mokhomole,2023), and among these institutions, the supreme audit institution of each country plays the most important role, through the information it provides to entities, governments and society in general, regarding how public resources are managed.

3. METHODOLOGY

The research methodology was qualitative analysis, namely the analysis and interpretation of some data contained in the Annual Public Reports on local public finances drawn up following the audits carried out by the Court of Accounts of Romania. The most important indicators were selected to highlight the role of the public audit in combating and preventing fraud, for the 2019-

2021 budget years, with the UAT and cities with municipal status in each county as selection criteria.

4. RESULTS

(Table no. 1) presents the total value obtained by summing up the individual values resulting from the audits carried out for each territorial administrative unit of the county of additional income, and damages as well as notifications addressed to the criminal investigation bodies for each County Council.

Table no. 1. Analysis of deviations found at the County Councils in the period 2019-2021

thousands of lei

The year 2019			The year 2020			The year 2021		
Addition al income	Tort	Referral to criminal investigatio n bodies	Addition al income	Tort	Referral to criminal investiga tion bodies	Addition al income	Tort	Referral to criminal investigatio n bodies
7.208,52	6.194,06	2.070,98	3.861	24.404,01	0	23.288	20.477	100,63

Source: Own projection using data from www.curteadeconturi.ro

Analyzing the number of deviations found as a result of public audits carried out at the territorial administrative units of the counties, it can be noted that their level varies from one period to another, but it is noted that in 2020 no deviations were identified at the level of the county councils that would require reporting to the criminal investigation bodies, and for the 2021 budget year, the value of the violation for which the criminal investigation bodies were reported was 100.63 thousand lei, compared to 6,194.06 thousand lei in the 2019 budget year.

Graphically, this evolution is shown in (Fig. No. 1. *Evolution of external public audit results for the period 2019-2021 at County Councils*)

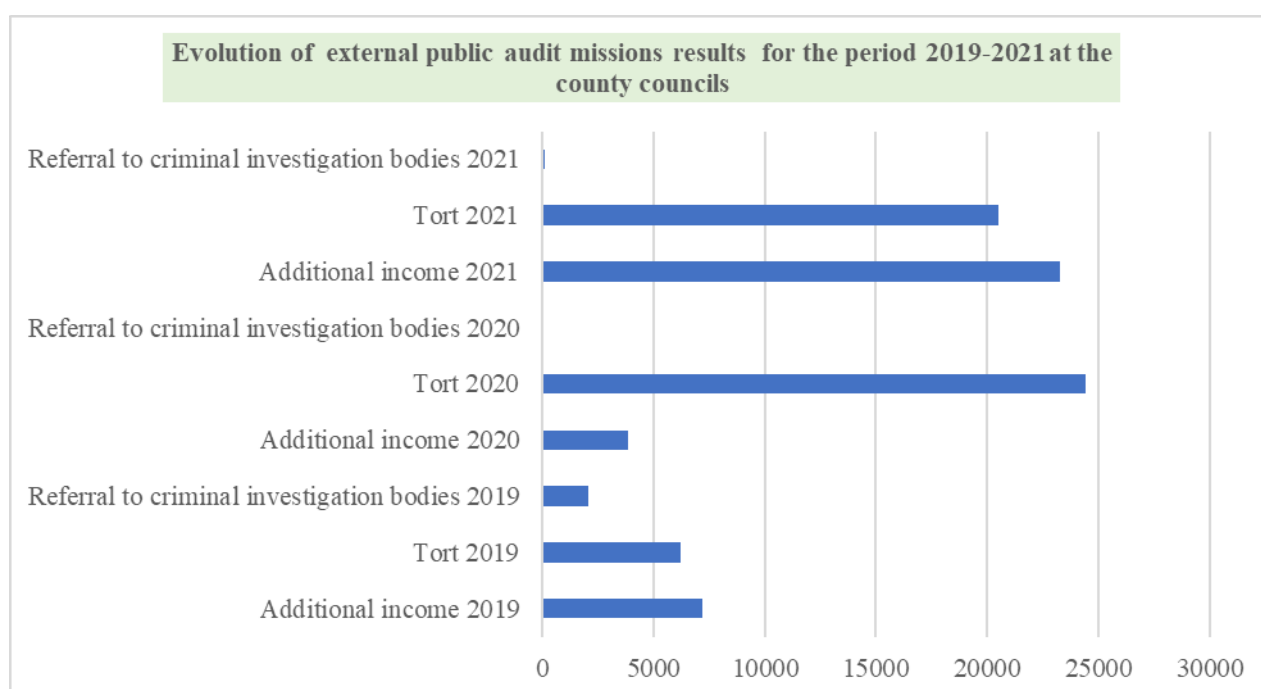


Figure no. 1. Evolution of external public audit results for the period 2019-2021 at County Councils

Source: Own projection using data from www.curteadeconturi.ro

(Table no. 2) shows the total value obtained by summing up the individual values for each city with the rank of the municipality in each county, additional income, damages and notifications to criminal investigation bodies.

Table no. 2. Analysis of deviations found in cities with the rank of municipalities in the period 2019-2021

The year 2019			The year 2020			The year 2021		
Additional income	Tort	Referral to criminal investigation bodies	Additional income	Tort	Referral to criminal investigation bodies	Additional income	Tort	Referral to criminal investigation bodies
23.819	26.784,80	1.412,83	44.391,32	98.530,08	22.454,79	1.188	1.179	111,88

thousands of lei

Source: Own projection using data from www.curteadeconturi.ro

Analyzing the number of violations found following the external public audits carried out, it can be noted that their level varies from one period to another, but we can also note that, although in 2020 at the level of municipalities in Romania, the criminal investigation bodies were notified for violations with a value of 22,454.79 thousand lei, and the 2019 budget year for deviations with a value of 1,412.83 thousand lei, the value of deviations of this nature was greatly reduced for the 2021 budget year when it registered a significant decrease, reaching the value of 111.88 thousand lei, from which it can be concluded that the external public audit had an important role in reducing fraud.

Graphically, this evolution is shown in (Fig. No. 2. *Evolution of the results of the external public audit missions for the period 2019-2021 in cities with the rank of the municipality*)

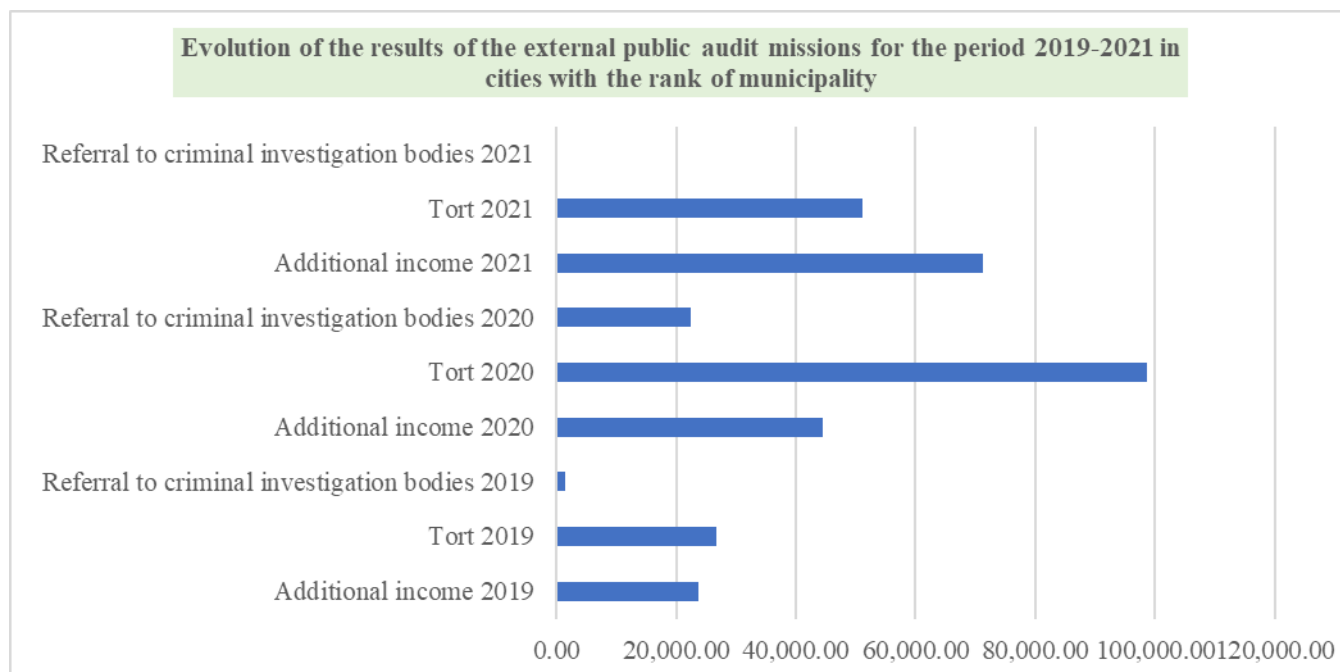


Figure no. 2. Evolution of the results of the external public audit missions for the period 2019-2021 in cities with the rank of the municipality

Source: Own projection using data from www.curteadeconturi.ro

5. CONCLUSIONS

The fluctuations of the values of the deviations identified, can be considered as a result of external public audit actions, so that during the audit mission was identified revenues due to local budgets higher. Or, a higher volume of realized revenues has as its main effect the possibility of increasing the volume of expenses, which, even if sometimes are allocated to the operating section, in some cases, have the effect of releasing greater financial resources for the section of development, respectively for capital expenditures, which thus relieves a part of the national public budget of a part of these expenditures, having overall positive effects in the efficiency of public budget management. Also, by increasing the expenses allocated to the development section, the living and working conditions of the citizens will be improved, creating a high comfort, a fact that increases the confidence of the interested parties in the institutions of the public sector.

Although in the public opinion financial and accounting deviations do not have the same importance as those that generate damages or additional income, this indicator is a very important one, as it reflects precisely the degree of distortion of the financial statements, which, where these deviations exist, does not reflect correctly the entity's financial position, respectively the overall picture is distorted, so that the deliberative bodies, the entity's management and, as a whole, the national governments are in a situation of not adopting suitable solutions or public policies, since the decisions are taken on the basis of distorted financial statements and which does not reflect reality. This aspect can easily generate the production of frauds or, in some cases, it can be precisely the result of defrauding public budgets.

The active role of the external public audit in combating and preventing financial fraud can be easily identified in the study carried out on the results of the audits carried out in the period 2019-2021 in the municipalities of Romania and the territorial administrative units of the counties, as a result of which, the value of the deviations for which the bodies of criminal prosecution registered a downward trend from one year to another of the period, given that, from 2019 to 2021, the expenses made from local budgets doubled. Moreover, in the total value of the budgets of the territorial administrative units, the most important share of income and expenses is held by the county councils and municipalities, moreover, the county councils also have the role of guiding the territorial administrative units of the communes, cities and municipalities, so that good practice it will be easily propagated to smaller public entities as well.

Following this analysis, it can be concluded that one of the main roles of the external public audit is to combat and prevent fraud, following the identification of deviations that contribute to the occurrence of fraud, as well as following the exploitation of the results of the audits carried out, both through the recommendations formulated and by providing management public budgets to the interested parties, and, why not, by notifying the criminal investigation bodies where it is found that the violations are the result of fraud.

The limits of the study consist in the rather limited period for which it was carried out, i.e. 3 budget exercises, and it follows that in the future the analyzed period will be extended.

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