ROLE OF THE AUDIT IN OPTIMIZATION OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

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Abstract. *In the last two decades the concept of "good governance" has come to vogue, which is synonymous with "administration" and means "leadership / organization", which presumes organization and management according to certain international / regional principles and standards and which have as objective the efficient management of resources in order to ensure high quality control and services. Governments, with the phrase "good governance", want to ensure the transition to better or ideal management. Today there are two camps approaching this concept: some who look like a miraculous potion for developing countries with little administrative and reforming capacities, and others who are more sceptical regard good governance as an ambiguous word, unnecessary. The values underlying the principles of good governance signify their consecration in the civic alienation of democracy and a shift to another way of administration.*
Keywords*: government, public, audit, entity, manager, control.*
JEL Classification*: M42, G34, H83.*

1. Introduction

Government programs of states usually assume the concept in the introductory sections the phrase *"good governance*" which implies the transition, at the level of common opinion, as an ideal or optimal type of government.

International reformist elites in the context of growing discontent with leaders and political practices in developing countries first embraced the concept of “good governance”. The frustration of the reformist agenda been constantly fuelled by meeting with authoritarian, corrupt or demagogic leaders to mitigate the risks of wasting financial assistance through corrupt and corrupt mechanisms, followed by stagnation and impasse of reforms.

Some preliminary remarks are required. The concept of "*good governance*" or "*corporate governance*" appears in the late 1980s in the World Bank documents, and begins to emerge in the debates on the path of developing countries or liberated by socialist doctrine. After the collapse of communism, "good governance" becomes a pre-requisite for distributing international financial aid to developing countries. In other words, the relationship between the investor and the beneficiary country changes so that it emphasizes certain criteria that must be met, mainly political, economic or legal. Secondly, the term "government" is not limited to the idea of government or the exercise of political power in a state; it has wider implications and includes both the government's activities and other public or private organizations. The premise is that public policies and objectives require cooperation actions between different actors. The nation-state level is just a facet of wider governance. Concepts such as "global governance", "corporate governance", "good governance policies", "government without governments" signal both an over-national and an institutional or corporate level of the debate. International actors, the World Bank (WB), the United Nations Development Program (UNDP), and the Organization for Economic Cooperation and Development (OECD) have defined the term "*G*" by managing managers through resource management at all levels, economic and social development. Subsequently, political reformist circles dragged the concept into the midst of discussions on development policies that seek to reorganize how to lead a state by aligning itself with external demands and meeting the new markets. In other words, "good governance" today treated as a state brand on the foreign market.

2. Corporate governance in public entities

Governance considered a way of guiding society towards a better order, which interpreted as a process that assures the leadership of society, just as the brain coordinates a whole body. The concept of "government" can be assimilated at all political and administrative levels (global, European, national, local) and used in various social, political, economic and social contexts (Figure no. 1).

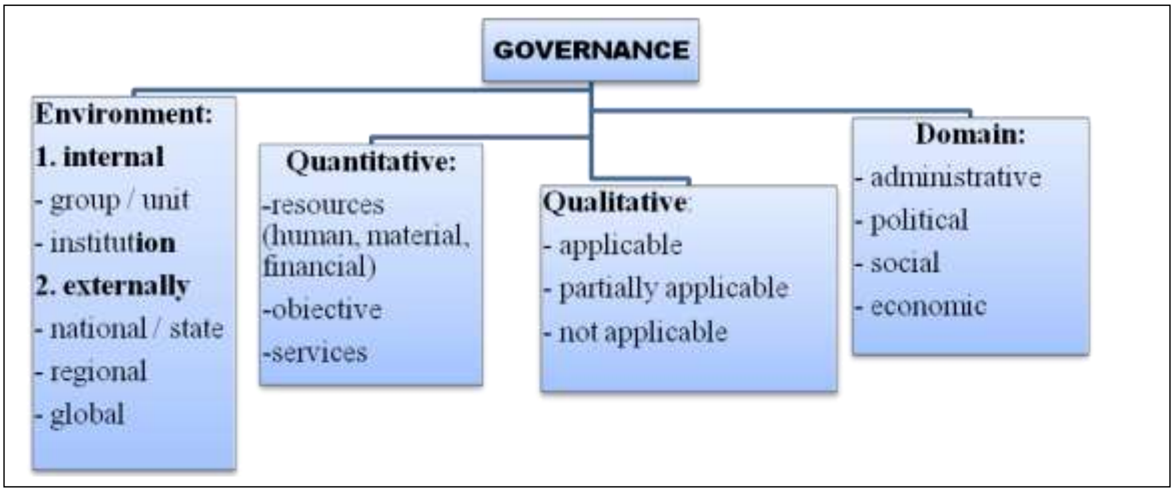

Figure no. 1. Semantics of the concept of governance

Currently, there is no unanimous and integral definition of "good governance" in the literature, just as there is no delimitation of its purpose, which implies universal acceptance. The term used with great flexibility, which can be an advantage, but also a source of operational difficulties. Depending on the objective of good governance, it will be based on full respect for human rights, ensuring the rule of law, effective participation, multi-stakeholder partnerships, efficient and effective public sector, legitimacy, access to knowledge, information and education, people, equity, sustainable development, attitudes and values that promote responsibility, solidarity and tolerance (Sefrats, 2015).

In 1992, the phrase "good governance" received one of the first definitions in the Governance and Development report - "a decisive factor in creating and strengthening an environment that fosters solid and equitable development, which is also an essential complement to robust economic policies" (World Bank, 1992).

In this report, which became the locus classics of the "good governance" debate, four areas of good governance are becoming priorities for the World Bank (BM), namely public sector reform, political responsibility, legal development, and information and transparency. The alarm on the partial failure of development policies triggered by external criticism, but also by internal assessments of B.M. The diagnosis called the "crisis of governance" and implied the idea that developing countries lack certain institutional conditions necessary for democratic mechanisms. A first affirmation of the principles of "good governance" started from this consensus, in the idea that international assistance requires some conditionality for the success of the reforms. The crisis of governance, or poor governance, has the following symptoms (World Bank, 1995):

1. The failure of public and private net separation, with the misappropriation of public funds to private gain;

2. The lack of a predictable legislative and governmental framework;

3. Excessive regulation;

4. Priorities inconsistent with the development and misallocation of resources;

5. Decisions taken in a non-transparent and narrow context.

In an attempt to identify the causes of underdevelopment, the World Bank has stagnated Africa's developing countries due to the crisis of qualified staff, corruption, concentration of political power and the legacy of the colonial past. Two years later, Development Report in Practice. Governance a B.M. since 1994 enshrines the principles of "good governance": "predictive, open, informed decision-making process (a transparent process); a bureaucracy with professional ethical standards; an executive responsible for its actions; and a robust civil society involved in public affairs; above all governing the rule of law. " The novelty consists in the emphasis placed on the role of civil society and, in the text of the document, on the importance of human rights. Today, there is a huge literature dedicated to "good governance," which has sparked profound perplexities, and much optimism. In the future, this body of texts is confident that we can determine good governance practices, development priorities and good sectoral policies.

Shortly after the appearance of the term, in the World Bank jargon, other international institutions take on the agenda of good governance, providing similar definitions. For example, the OECD launches the Participatory Development and Good Governance report in 1995, where "good governance" defined as follows (World Bank, 1995):

1. Rule of law;

2. Public sector management;

3. Corruption control;

4. Reducing excessive military spending.

The rule of law states that "a predictable legal environment with an objective, robust and independent justice system is an essential factor for democratization, good governance and human rights," the United Nations Development Program (UNDP) and he principles of good governance in 1994, using as the parametric definition the following conditions: [9]

1. Democratic pluralism;

2. Rule of law;

3. A less regulated economy, cleaner and less corrupt administration.

No beginnings of the principles of “good governance” should be regarded as rigid, fixed in the jargon of the reformist agenda. They bear the stamp of different institutional priorities, of the time when different lenses were drawn up examining the political and economic reality.

In the past two decades, literature on "good governance" has simply exploded, some voices being sceptical about inflationary approaches. Naturally, behind the dry and fade formulas, deeper assumptions about nation-state evolution, market economy, globalization, the role of corporations in the world order, the impact of civil society in democracies, etc.

As far as our literature is concerned, the subject did not give rise to a substantial interest, even though the values of good governance have always been on the public agenda. The development policies of a country depend, above all, on political institutions whose stabilization depends on economic institutions and investments (Pippidi, 2015).

Disputes around the content of "good governance" will not end too soon. Some voices argue that the reformist 'good governance' agenda remains too ambitious for developing countries; others say that the term has become a complex concept, and standards are a minimum set of instruments in the formation of effective institutions.

The opinion of some specialists on the opposite of the phrase "good governance" is harmful government, which implies a state anarchy, politicization of political power, endemic corruption, lack of human rights, electoral illegality, lack of transparency and consultation, harassment of civil society - becomes, in the current context political disillusionment, common enemy, etc.

The first state at European level to adopt a corporate governance guide is Britain (1992) later in France, Finland, Holland, Spain, Italy, Belgium and Portugal (1997-1999). States that have joined / will accede to the EU since 2000 been strongly recommended in the negotiations to elaborate and adopt them by the date of accession to comply with corporate governance codes issued by OECD, INTOSAI, EUROSAI, COSO, etc. Thus, by guaranteeing and unanimously accepting the conditions imposed by the external environment, the states led to the elaboration of codes of corporate governance / good governance through the implementation of reforms, involving the adjustment of legislation to international / regional codes and standards, the liberalization of internal markets, transparency in decision-making , and so on

The leading role in implementing good governance lies with top management, which is responsible for delivering effective and efficient public services. To achieve this, they need to recognize the relationship between resources and goals what is to be done efficiently and effectively. Moreover, the top manager has to organize the work in a rational way by ensuring that all the features of internal control exist and is functional, which presupposes that the delegation of tasks is structured and well delimited so as to cover both the efficient use the resources entrusted, and the effective achievement of the objectives.

In other words, accountability must be internal as well as external, where the institution will include internal control over the use of public and budgetary funds, and from an external perspective: the relationship with the administrative and political hierarchy, as well as the relationship with citizens. Implementing a well-balanced and sufficient mechanism is of major importance.

Depending on the type of entity and its field of activity, governance addressed based on a set of principles and codes designed to promote its achievements through respect and application.

3. The complexity of auditing in corporate governance in the public entity

The new approach to specialized literature, the audit of the entity's audit function involves a trilateral approach that combines: internal audit, audit committees and external audit, which is a first step towards effective and efficient corporate governance that recommended by codes of governance corporate (Figure no. 2).

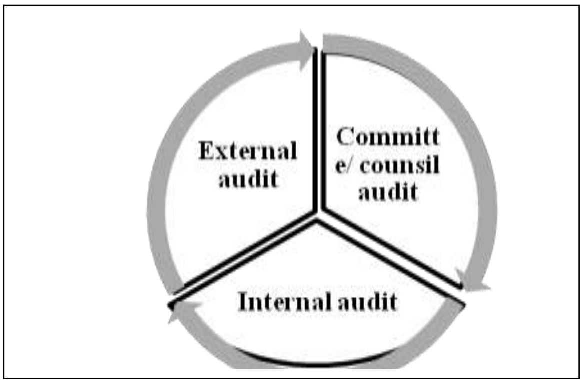

Figure no. 2. Auditing in Public Sector Corporate Governance

The relationship between the elements of the internal audit function and the external audit agreed because it reduces the audit costs, but we must not forget the differences between the two activities.

The Audit Committee has the purpose of collaborating with the two audit functions. Thus, the Audit Committee characterized as a body responsible for the appointment, reputation and active oversight of the external auditor.

By analysing the European directives, the audit committees ensure good organization, which leads to more efficient activity within the entity, more than the entities in Germany provide detailed information on how to organize and operate the audit committees. In Romania, the establishment of audit committees has been increasing since 2008 and had an upward trend in 2010 as compared to 2009, as shown by the results of our study, and in the Republic of Moldova the establishment of the Public Audit Board in 2017 and the audit 2007.

At present, a particular emphasis placed on internal audit, as it is the basis for ensuring internal control of public entities. Due to the complexity of the activity and the increasing importance that the audit is doing in the course of any activity, in time, it has become necessary to develop professional standards in the field, ensuring a minimum quality of the audit process and implicitly a certain degree of auditor profession.

In the literature, there is no unanimously accepted definition of internal audit because depending on the type of entity, the role and attributions differ. But the basic definition is given by the Internal Audit Professional Standards developed by the Institute of Internal Auditors, *"Audit internal is an independent and objective activity that gives an organization a degree of control over operations, guides it to improve its options and contributes to adding value. Internal auditing helps this entity achieve its objectives, evaluating in a systematic and methodical approach its risk management, control and governance processes by making proposals to enhance their effectiveness".* The internal auditor's duty is to ensure by providing high-quality professional services in the assessment of goodwill and management's professionalism in the management of internal resources and risk management of the entity".

Internationally International Standards in Internal Auditing are the general framework and, at the same time, a working tool for both audit and management, thus regulating the degree of development and the services provided and the level of professionalism of the auditor. The complexity of the auditor's work is adapting and practicing in different environments and types of entities.

According to art.3 of the Law of the Republic of Moldova no. 229 / 2010 on public internal financial control, *"Internal audit is the independent and objective activity that provides managers with insurance and consultancy, developed to improve the activity of the public entity. This is intended to help the public entity achieve its objectives by assessing systematically and methodically the financial management and control system and providing recommendations for enhancing its effectiveness"* .Through its activity in the entity, it provides reasonable assurance to the management of the related entity to its functionality.

From this general activity of independent evaluator, two activities separated, such as the assessment of internal control and audit together with the assessment of internal control and audit. Often the concepts of internal audit and internal control that are used in the same sense are mistaken, they are not similar because it aims to certify or certify that the entity's financial and accounting records correspond to the valued processes while internal control. In the form of preventive and management financial control, indicates all the internal control procedures used to obtain a perfect command of its operation. In other words, internal audit assesses the processes and procedures of internal control, the entity's ability to use the expected objectives effectively and effectively, and how to control the inherent, controlling and residual risks of its business. The internal audit function is particularly useful to the entity's management, providing advice and objective assurance by providing recommendations for improving it by contributing to improving the public entity's performance.

In the past, the role of internal audit was to represent the assurance by a series of sequences of the compliance of internal control with national and international regulations, at present the role is more complex through its valences. Currently, he takes the form of a valuable management consultant, focusing on assessing the entity's risks and issuing process improvement recommendations. Therefore, we see the change in the perspective of internal audit, from compliance audit to system audit, performance, financial and information technology.

3.1. Governance in the Public Sector in the Republic of Moldova

Good governance in public entities in the Republic of Moldova achieved through the implementation of the general objective of the Public Finance Management Development Strategy, which is to ensure (Government Decision no. 573 of 06.08.2013):

- Efficient and effective allocation of public financial resources to activities that contribute to the growth of the economy and development of the RM;
- Maintaining effective management of the use of public funds in all areas and sectors of the administration.

The realization of the strategy regulated by Law no. 229/2010 on Public Internal Financial Control (PIFC) and the PIFC in the Development Program (Government Decision no. 1041 of 20.12.2013) refers to the second objective and aims to "*strengthen managerial accountability for optimal management of public resources according to the entity's objectives, based on the principles of good governance, through the implementation of the Financial Management and Control System (FMC) and the Internal Audit (IA) activity in the public sector*". The principles of good governance aligned with the Public Administration Reform in general, focusing on transparency and accountability, legality and equity, economy, efficiency and effectiveness, ethics and integrity in the work of the public entity. In this context, managers are attributed managerial accountability to ensure the principles of good governance, thus giving them greater freedom and flexibility with regard to how they achieve their goals of ensuring compliance, quality of information, results and impact of services provided. Otherwise, it will radically change the culture of governance and the management of public funds. The advanced program was ambitious and did not fully achieve the overall goal of strengthening managerial accountability for optimal resource management in line with the objectives of the public entity, based on the principles of good governance. The monitoring and implementation measures under the program have not been sufficiently effective and the self-assessment and reporting processes are not yet producing reliable reports on the current situation. Thus, the analyses carried out by the Ministry of Finance in the Activity Reports of the Moldova (CCRM) and the Financial Inspection (FI) show that the FMC self-evaluation system of the entities does not work as planned and does not always reflect the situation real. Which confirms that there is stillroom for improvement and requires a longer period.

A recent study of development partners identified a number of system failures and obstacles and awareness of the importance of implementing FMC. As stipulated in the 2014 EU-Moldova Association Agreement, the Ministry of Finance (MF) will develop the PIFC development program 2018-2020 and will take into account (Parliament's Law no. 112 of 02.07.2014):

- More active involvement of top management in the reform, diminishing the misunderstanding or ambiguous interpretation of the concept;

- Creating a real connection between operational and support processes, with the aim of reducing bureaucracy and control on paper, for more efficient and effective public services;

- Clear division of political and administrative levels, with a subsequent specification of the roles in the FMC system for the central public administration (CPA) and local public administration (LPA) level II authorities;

- Clarification of responsibilities between different sectors of the administration, ensuring the necessary verification and control of these responsibilities;

- Clear segregation of responsibilities and responsibilities between different levels and subdivisions of public entities for operational, financial and budgetary processes and support;

- The introduction of a robust internal planning and control mechanism at the level of the entire public entity;

- Further development of the economy and finance subdivisions, in line with their role in the FMC system;

- Improving the function of IM as an insurance provider and management consultant in the configuration and operation of FMC systems.

- The plans and objectives must be financially sound and SMART

- Risk management is a constituent part of managerial processes.

Identifying a new way of organizing internal audit units (IAUs) and its activity, thus ensuring relevance and timeliness through the quality of the services provided and the professionalism, independence and objectivity of the internal audit function. The proposed objectives will achieve public tasks in accordance with the principles of good governance.

According to the reports on the organization and functioning of the FMC system (Order of the Ministry of Finance no. 49 of 26.04.2012) for the implementation of the actions of the IFPC Development Action Program (Government Decision no. 1041 of 20.12.2013) and the Internal Audit Report (Order of the Ministry of Finance no.113 of 15.09.2011) for the period 2014-2016, which were received by the to the FM, from the internal auditors of the public entities, the following were accomplished:

The 96 (100%) public entities operate 72 or (75%) IAUs out of which 24 or (25%) just created but did not filled with an internal audit unit. Of the 72 or IAUs - 24 or (33.3%), there are 2 and more auditors and 48 or (66.7%) IAUs - one auditor, which confirms the inefficiency of the audit activity in accordance with the International Auditing Standards and Standards (Figure no. 3).

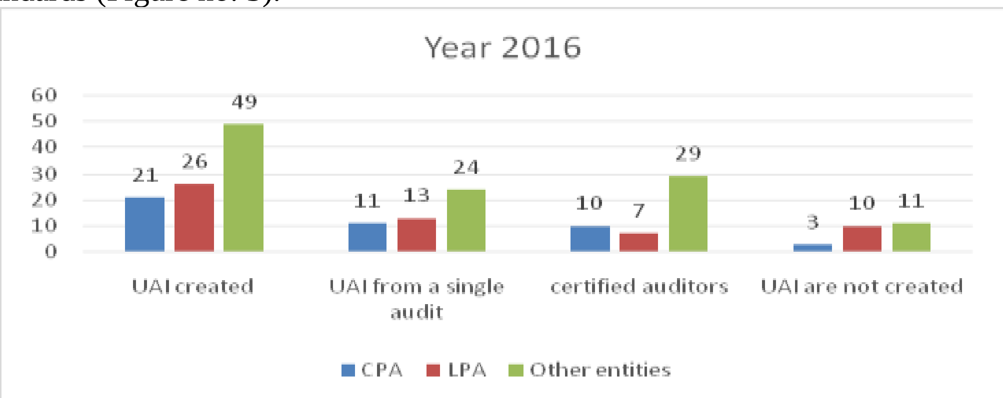

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Figure no. 3. Audit activity in public entities

Source: Consolidated Annual Report on Public Internal Financial Control for 2016, elaborated by the Ministry of Finance of the Republic of Moldova

For the analysis of the 72 or (100%) functional IAUs, the MF does not have to report 7 or (9.7%) IAUs from the public entities, which subordinated to the Parliament of the Republic of Moldova, and from 65 or (90.3%) IAUs that are required to report to MF, 10 or (15.4%) of the IAUs did not report activity reports for 2016 for various reasons. Thus, the later information in this chapter based on the activity of 55 or (74.9%) IAUs who reported internal audit reports in the public sector, but because 18 or (33%) IAUs do not have a designated manager. The incomplete or insufficient IAUs is causing difficulties in the efficient performance of the internal audit activity, diminishing its quality. At the same time, there is an IAU, which besides the internal audit tasks indicated in the job sheet performs additional tasks. Thus, 4 IAUs of the LPA level II, in addition to the internal audit tasks, are involved in the entity's operational activities as indicated by the management, which does not ensure the implementation of the Internal Audit Code.

Regarding the planning of the internal audit activity, the situation in 2016 compared to 2013 has improved, in 2010, 31 IAUs hold Strategic Plan 3 or (9.67%) and 23 or (74.2%) Annual Plan, and in 2016 out of 55 IAUs hold 100 % Annual Plan and the Strategic Plan Only 31 or (56.36%) and the Quality Assurance Program 34 or (61.4%) IAUs reported (Figure no. 4).

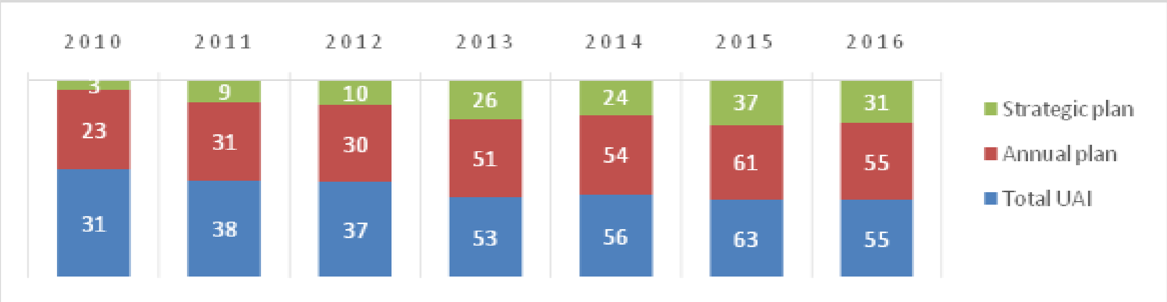

Figure no. 4. IAU Documentation

Source: Consolidated Annual Report on Public Internal Financial Control for 2016, elaborated by the Ministry of Finance of the Republic of Moldova

For 2016, the IAUs planned to carry out 327 missions (100%) audit, of which 238 or (72.78%), insurance missions and 89 (27.22%) missions counselling, which have not been completed 42 missions or 12.85% due to various reasons. The 285 audit missions performed by 116 auditors in total, representing an average of 2.46 missions per auditor.

The activity of the 55 IAUs largely focuses on compliance audits. At the same time, compared to the previous years, there is an increase in the number of performance missions, while IT audits are still a challenge for internal auditors (Figure no. 5).

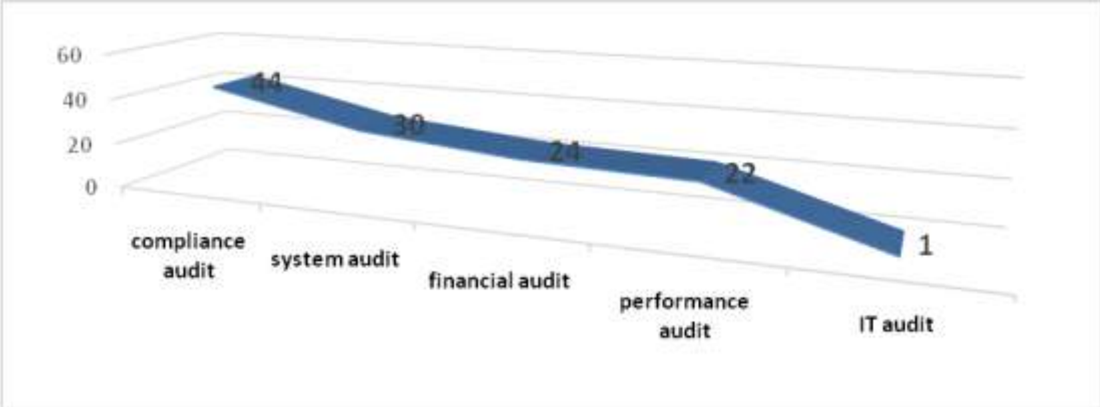

Figure no. 5. Types of audit missions in 2016
Source: Consolidated Annual Report on Public Internal Financial Control for 2016, elaborated by the Ministry of Finance of the Republic of Moldova

Each internal audit mission completed with the preparation of an Audit Report, which presented to the entity's manager, as well as an Action Plan on the implementation audit recommendations.

For the reporting period, the internal auditors provided 2702 or (100%), managers, of which, accepted recommendations, of which 2687 or 99.44% of the recommendations:

- Totally - 1735 or 64.57% recommendations were implemented;
- Partially implemented - 546 or 20.33% recommendations;
- Not implemented - 513 or 19.1% recommendations.

The recommendations have not been implemented for the following reasons: the imperfection of the regulatory framework related to the entity's activity; lack and / or insufficiency of financial and human resources; lack of relevance of the recommendation over time; lack of managerial will to implement audit recommendations; erroneous estimation of the implementation period of the recommendations.

The external audit states that the FMC system is not functional, that the concept of managerial accountability did not fully implemented, and that public entities must ensure that a management system is in place to achieve the objectives and ensure adequate management of the allocated public finances with the elimination of major risks and implementation focus on results.

Managers need to change their approach, moving away from a situation where the measures taken to organize the FMC system are most often formal and inefficient, being mere paper records that do not apply in practice. So some recommendations have been made to the Parliament of the Republic of Moldova, which through IFPC implementation will essentially contribute to improving the management of public funds and attracting foreign investments. Therefore, it has advanced a string of recommendations to the Parliament of the Republic of Moldova, which, through the implementation of the IFPC, will essentially contribute to improving the management of public funds and attracting foreign investments.

4. Conclusion

Thus concluded the conceptual model must be based on the analysis of the audit function as a whole and its components in corporate governance in three times in sequence: during planning, implementation and achievement of the strategic objectives of entities, which will put emphasis on the elements of internal control and on the financial management of resources. Special emphasis will be placed on the significant changes in the synergy of these elements that need to interact to play an active role in achieving effective corporate governance. The role of the audit is to interlink the elements in the analysis to help streamline corporate governance within the entity. I believe that achieving effective corporate governance must be dealt with internally and externally, the internal one is the four elements of internal control, the Board, risk management and financial reporting / non-financial and external is represented by three elements: external auditor's opinion, investor confidence and transparency of information.

Thus each element shares will contribute to efficient corporate governance / good governance, where the view of the internal auditor will ensure the level of internal control efficient use of resources, the external auditor will certify the correctness of information provided by the entity so will boost investor confidence, and the audit report will help increase users' confidence in the financial and non-financial and transparency of the information provided and the audit committee will contribute significantly to enhancing confidence and reducing fraud.

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