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INTERNAL AUDIT AS ONE OF THE KEY FACTORS OF EMPLOYEE ACCOUNTABILITY IN PUBLIC ADMINISTRATION

ABSTRACT: Internal audit is one of the key mechanisms of good governance, which contributes to increased accountability, with auditors serving as specific guardians of the lawful and proper functioning of an organization. The goal of establishing internal audit is to improve the efficiency and effectiveness of the organization's operations. This paper presents the research findings on the most common irregularities in the work of internal auditors within the public sector. The paper aims to identify the most frequent types of irregularities in the work of internal auditors and highlight the importance of establishing internal audit in public administration as one of the key factors of accountability and proper organizational functioning.

Keywords: *Good governance, accountability, internal audit.*

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1. Introduction

The Institute of Internal Auditors defines internal audit as a consulting activity aimed at improving the organization's operations, with a special emphasis on independence and objectivity (Institute of Internal Auditors, 2009, p. 2).

In a narrower sense, it is an examination of the financial statements of a legal entity by an independent, appointed expert, called an internal auditor, to obtain his expert opinion on whether the organization's financial operations are following legal and internal acts (Institute of Internal Auditors, 2009). However, internal auditing work cannot be limited to financial operations; it covers various business segments (Schillemans & Van Twist, 2016). To this end, activities such as monitoring, self-evaluation, evaluation, and the like are carried out to provide assurance and security to the accountable persons or collective bodies at the organization's head about whether their business is accountable and efficient.

Internal audit is essential for good governance in the organization, i.e., for the way the organization is governed, its structures, ensuring the accountable behavior of public officials, reducing the risk of fraud and corruption, the quality of services provided, the credibility of the organization, the efficient performance of managerial activities, the implementation of public procurement, adequate allocation of resources and expenditure of funds (Australian National Audit Office, 2014, p. 75).

The goal of an internal audit is to improve the efficiency and effectiveness of the organization through the internal audit system approved by the management to comply with regulations and procedures by the management and the organization itself (Unegbu & Kida, 2011). In theory, it is understood as a kind of help to management or its "constructive critic" (Unegbu & Obi, 2012). This further means that the management willingly wants to know where it is making mistakes and tries to correct its mistakes, with the help of experts, who will point it out to him.

Internal auditing is a professional activity that checks business compliance, helps identify problems through a systematic approach to risk assessment, and improves the efficiency of risk management (Schillemans & Van Twist, 2016).

Internal audit has an increasingly important role in establishing a system of good governance and accountability in the public sector, so authors worldwide are beginning to assess these tools' effectiveness in achieving the public sector's goals and objectives. One of the studies conducted in

Poland indicates the significant role of internal audit in the rationalization of business and its contribution to the accountable and ethical functioning of public administration, the efficient functioning of public services, and the rationalization of public spending (Postula, Irodenko & Dubel, 2020).

OECD research on internal audit in the public sector has identified some key factors important for its effective functioning. The first is the so-called internal audit reporting line, which determines the person or body to which the internal audit will be accountable and report on the results.

Certain countries, like the United Kingdom, have two reporting line practices. One line in ministries is where the head/head of internal audit reports to the secretary of the ministry, who then reports to the secretary of state. The second line of reporting functions so that the head of internal audit reports to a lower level, namely the head of the financial department, that is, the person responsible for finances. Some ministries in Great Britain require the accounting department to approve the internal audit work plan, which is not a good solution in the opinion of the OECD because it weakens the independence of the auditors and their expertise (OECD, 2011).

After an extensive analysis, the OECD concluded that the most effective level of internal audit reporting is when reports are submitted to the highest level within an organization. For example, in ministries, a minister or an equivalent person or body.

As for the so-called other reporting lines, the so-called independent audit committee or audit committee, in France, some ministries (a smaller number) have a second line of reporting, namely the audit committee. However, the goal and strategic commitment of the French government is to implement reform, formalize internal audit services, and establish a second line of reporting in all ministries. Sweden does not have a second line of reporting, unlike The Netherlands, Canada, Australia, and the United Kingdom, which have a second line of internal audit reporting. However, the Swedish ministries believe that the public publication of all internal audit reports, which are available on the Internet at any time, contributes to the transparency of work and the efficiency of achieving the purpose of internal audit (OECD, 2011).

The OECD concludes that the second line of reporting is good that it exists, but that audit committees or boards should be persons outside the ministry or even outside the public administration to ensure their independence (OECD, 2011).

Regarding the relationship between financial governance and control and internal audit, it is recommended that both systems be established under the same person/body that will manage them. If this is not the case, the risks

from the financial governance and control system should be clearly included in the mandate of internal audit (OECD, 2011). We conclude that these two activities complement each other, and there is no reason for them to function independently within the same organization.

Another important OECD note from the research conducted is that financial governance and control and internal audit systems should not be limited to risk governance in the budget and finance sphere but should include a wider control environment, including prevention plans and ethical codes of behavior (OECD, 2020).

This further implies that ethics is essential for both systems, as shown by examples of French ministries that have fully established a financial governance and control system, insisting on an ethical framework including ethical codes and mandatory training in ethics and integrity.

As an example of good practice, the OECD cites a ministry in the Netherlands in which all employees must perform a self-assessment of integrity through a test, the results of which help the internal audit to identify risks and risk areas in which ethical norms and integrity standards may be violated, but which can also lead to legal accountability, because it often includes corrupt forms of behavior. Based on the evaluation of the integrity tests, the internal audit includes certain areas in its work plan (OECD, 2020).

When it comes to the qualifications of internal audits, according to OECD research, most European countries require special knowledge in the field of accounting and auditing to obtain the title of internal auditor, as well as passing appropriate exams and obtaining a license to perform this activity.

In the United Kingdom, some ministries stated that, in addition to the basic requirement of necessary knowledge in the field of accounting and auditing, qualifications are also required, such as human resources management and public procurement management, as well as knowledge in the field of fraud prevention and detection (OECD, 2020).

The World Bank mainly focuses on the role of internal audits in detecting public sector fraud. World Bank experts conclude that although countries' public sectors have increased their efforts in preventing and detecting fraud in public sector organizations, it is still difficult to detect it (World Bank, 2019).

The most common examples include various frauds in public procurement procedures, accepting bribes for "fixing" contracts on public procurement to related parties, and theft or sale of the organization's inventory, consumables, or information. There are also frequent so-called claims for false or non-existent expenses, proven by fictitiously issued receipts for travel and accommodation and invoices for "alleged" used fuel. Furthermore, requesting and paying

overtime for hours not worked and per diems and travel expenses for days not traveled. Accounting fraud is becoming increasingly common, and so-called reporting manipulations occur when various illegal situations and frauds are covered or “ironed out” through accounting reports (World Bank, 2019)

The World Bank insists on properly dividing duties to prevent fraud so that business processes are adequately separated and distributed. At the same time, no individual in the system can access transactions in the entire business process, only in their scope of work (World Bank, 2019).

The Law on the Budget System of the RS provides for the establishment of internal audits by users of public funds (Law on the budget system, 2009). A special Rulebook elaborates on the criteria, standards, and models for internal audit organizing. It can be organized as a) a separate unit, b) a joint unit of two or more users of public funds, and v) an internal audit performed by the internal audit unit of another user of public funds. The consent of the Central Unit for Harmonization is necessary to form the second and third internal audit models (Rulebook on common criteria for organizing and standards and methodological instructions for handling and reporting internal audit in the public sector, 2011).

2. Methods

Through a research instrument—a semi-structured interview conducted with an authorized internal auditor in the public sector—we find examples of perceived weaknesses in internal audit subjects in the public sector.¹

The interview consisted of the following questions:

- 1) What are the most common irregularities that you have observed in your previous work as an internal auditor in the public sector?
- 2) Can you classify the identified irregularities by specific areas for more efficient data analysis?

3. Results

In principle, we can single out several groups of irregularities, which are the most common in practice, namely:

1. non-compliance with laws and other relevant regulations;
2. incomplete internal documents;

¹ Audit reports of the authorized internal auditor in the public sector (unpublished documents). Authorized internal auditor of the Ministry of Finance, based on the Certificate of the Ministry of Finance on the acquired title of authorized internal auditor in the public sector, no. 0455.

3. absence of an internal act;
4. non-compliance and failure to act (non-compliance) following its internal acts.

For the sake of a more detailed analysis, we have divided the identified irregularities into several areas, considering the subject of the audit, namely:

- 1) inventory of assets and liabilities;
- 2) public procurement;
- 3) official trips in the country and abroad and representation expenses;
- 4) use of official cars;
- 5) safety and health at work and fire protection;
- 6) non-compliance specific to certain types of public services.

1) Inventory of assets and liabilities

- By checking the compliance of the internal regulation, which refers to the annual inventory for 2021, it was determined that the procedure for the subject of the audit's annual inventory of assets and liabilities was not in accordance with the Rulebook on the method and deadlines for performing the inventory of assets and liabilities and harmonizing the accounting balance with the actual balance;
- Inspecting the submitted documentation did not ensure that all appointed members of the census commissions were familiar with the procedure for the annual inventory of the audit subject's assets and liabilities;
- Testing of the Decision on the census and formation of the census commission number XX found that a person was appointed as the president of the Commission for the inventory of fixed assets and small inventory, who is in charge of the property to be inventoried, which is not following the legal and internal regulations;
- The Decision on the Census and the Formation of the Census Commission No. XX was tested and found to have been delivered to all commission members but not to the finance department or the internal auditor at his request;
- Upon inspection of the Instructions for the commissions' work for the 2020 census, it was determined that they are not in accordance with the Organization's Rulebook in part. This refers to the Central Census Commission's instructions for preparing the census lists, while the Rulebook provides that the manager does its financial services. Also, the same Instruction does not give that one copy of all census lists is left at the census site, although the Rulebook provides that;

- The work plan of the Commission of short-term and long-term claims, liabilities, cash and cash equivalents, and cash for 2020 was reviewed. It was determined that the deadlines are not well defined because the data for the list of claims and liabilities can be obtained after December 31, i.e., in the following year for the previous one;
- The work plans of the census commissions for 2020 were inspected as part of the audit, and it was determined that the plans were not submitted to the internal auditor;
- By checking how the auxiliary books and records are aligned with the main ledger, it was determined that there are no reconciliation records of the auxiliary books and records with the main ledger as proof that the reconciliation was carried out;
- By observing the manner of compliance with the debtors, it was determined that the settlement was not carried out within the legally prescribed deadline until December 5 of the current year, for which the census is being conducted;
- By inspecting the tested census lists at the subject of the audit, it was determined that the third copy of the census lists, with the established actual state without value, which should be left at each census point, is not printed and filled in, which is provided for by internal regulations;
- The inventory list of claims and liabilities as of 12/31/2021 was tested, and it was determined that the responsible person did not sign it;
- Based on the conversation with the president of the Census Commission, it was determined that during the inventory of liabilities and claims for the year 2021, the members of the Census Commission were not shown the original documentation;
- By testing the census lists on which mobile phones were listed for use and by looking at twenty reverses, it was determined that reverses are issued, but no evidence was provided that they were issued for all mobile phones that were put to use;
- Testing the attached reverses determined that they are not formally correct, most often incomplete; that is, not all the data on the issued reverses were filled out;
- By testing the census lists, it was determined that the model of the computer, namely the portable computer that was given for use, did not match with the one that was discharged by the employee whose employment relationship in the institution ended.

2) Public procurement

- It was established that with the specific audit subject, 26% of planned public procurements were concluded;
- Market research is done in a formal template manner, without accompanying documentation and minutes. Based on this, it can be concluded how the bidder's data and prices were obtained, which may indicate that the public procurement officers or the commission do not essentially conduct the research;
- For the members of the Commission, decisions often appoint the same persons (the same composition of the three-member Commission) for different types of public procurement, even of a specialized type;
- Concerning concluded contracts, no person is responsible for monitoring the execution of a specific contract/order;
- With the specific subject of the audit, 50% of the agreed amount was paid as an advance without this being defined in the Contract;
- With the specific subject of the audit, an appropriate promissory note for the work's good performance was requested by invitation and contract. Still, it was not in the documentation, nor was it requested from the subject, even though it was stipulated in the invitation and a condition for concluding the contract.

3) Official trips in the country and abroad and representation expenses

- At the subject of the audit xxx, it was determined that there is no internal Act or Rulebook on official travel in the country and abroad;
- At the subject of the audit, orders for business trips are filed retroactively for two to one month from the moment the business trip ends;
- At the subject of the audit, many travel orders were paid without certification by the immediate manager and registration at the clerk's office;
- At the subject of audit, per diems were paid for business trips and treated as personal income; that is, travel orders were open 24 hours every two or three days;
- At the subject of audit, it was established that in addition to the paid expenses of the entire board during the official trip, the audit subjects also paid per diems for official trips, violating the law;
- Although the internal act, the Rulebook on the use of the national team's funds, stipulates that a report should be drawn up on each event, which was the reason for spending the national team's funds, the institutions did not have supporting documentation for the national team's costs, but they paid them properly.

4) Use of official cars

- The internal acts do not define which jobs require a monthly charge or which workplaces require a 24-hour car charge;
- Although the Regulations define that after the official trip is completed, the official vehicle is parked in the official parking lot, employees often drove them home (observed by many audit subjects);
- The vehicle use/return database is not kept up-to-date;
- Calculate and monitor all prescribed taxes and personal income contributions for all employees who used official vehicles and received compensation for coming and going from work;
- It was found that some vehicles consumed more fuel than usual;
- When filling fuel at the pumps, the employees did not record the correct mileage with a kilometer per hour;
- Inspecting the monthly travel orders and GPS revealed a significant difference in kilometers traveled.

5) Safety and health at work and fire protection

- At the subject of the audit, it was found that the Act on Risk Assessment in the Workplace and Working Environment was not harmonized with the Assessment of the Occupational Medicine Service;
- The Act on the Assessment of Risks in the Workplace and Working Environment determines all workplaces that require special preliminary and periodic inspections;
- The specific subject of the audit does not file any forms – records that are kept according to the Law on Occupational Safety and Health;
- The specific subject of the audit does not have the Decisions of the competent Ministry on categorizing buildings as prescribed by the Fire Protection Law.

6) Non-compliance specific to certain types of public services

The specificity of higher education is the existence of funds following the law. In higher education institutions, the basic salary is increased by a certain percentage from their own funds. During the audit of the higher education institution, it was determined that no internal acts defined the criteria for increasing earnings from own funds. Also, the explanations for the decision to increase earnings from own resources as a basis state specific jobs that are already within the scope of the employee's work, that is, which are already provided for in the employee's employment contract, and cannot fall under

extraordinary activities and as such be the basis for increasing earnings from own funds.

For example, the subject of the audit mentioned the following tasks or qualitative criteria in the explanations of the decision, which are not an adequate basis for increasing earnings from own funds:

- o Realization of the extraordinary exam period;
- o Reception of a new generation of students;
- o Participation in commissions;
- o Preparation of various reports;
- o Participation in the commissions for the defense of graduate theses (larger number of commissions);
- o Preparation of certificates, diplomas, teaching, and exam schedules (increased scope of work);
- o Tidying up the script room before the beginning of the semester;
- o Demonstrated exceptional expertise, dedication, independence, and professionalism;
- o Commitment to fast and efficient performance of work tasks;
- o Preparation of documentation for the annual census;
- o Increased number of calls answered by persons in charge of providing information to students;
- o Employees contribute to the reputation and affirmation of the higher education institution.

All the aforementioned explanations are already contained in the employees' employment contracts, and their reports, and those that contain qualitative criteria cannot independently be the basis for salary increases.

Another frequent irregularity noticed by looking at the Employment Contracts of employees in public services is that their calculation and payment of employees' wages and the determination of their coefficients are based on the Regulation on coefficients for calculation and payment of salaries of employees in public services. The audit determined that some employees of the audited subjects have increased coefficients concerning the Regulation mentioned above and that non-existent jobs, which are not in the Regulation on coefficients for calculation and payment of salaries of employees in public services, have been systematized.

These weaknesses were observed in those institutions that were the subject of the control of the state audit. However, in some of them, there is a problem of non-compliance with the Regulation on the coefficients for the calculation and payment of salaries of employees in public services with

the Catalog of workplaces, which the state audit, as a measure of attention, directed “appeal” to the relevant entities to harmonize the above by adopting, that is, to amend, supplement or adopt new – appropriate regulations.

5. Discussion and conclusion

The findings of the internal audit indicate significant deficiencies in the process of inventorying assets and liabilities in the investigated organization. Primarily, there is an inconsistency between the performed census procedure and valid rules and regulations, which implies non-compliance with internal regulations. In addition, members of census commissions are not adequately familiar with the census procedure, which reduces their ability to perform their duties effectively. It was also noticed that the persons in charge of the listed property participated in the listing process, representing a conflict of interest and not following control standards. Deficiencies in communicating and distributing relevant documents, as well as inconsistencies in instructions and rules, further contribute to the process’s inefficiency. In addition, there are inconsistencies in census timeframes and inadequate documentation, which affect the accuracy and reliability of census results.

These shortcomings point to the need for significant improvements in asset and liability governance, including improving knowledge and communication within the organization and, more precisely, aligning internal procedures with valid regulations and legal frameworks.

The internal audit findings related to the public procurement process of specific audit subjects reveal several problematic aspects that require special attention and improvement. First, only a small percentage (26%) of the planned public procurements were realized in one subject, which indicates potential deficiencies in the planning or execution of these processes. Also, market research is done in a formal and template way without adequate documentation and records, which may indicate that the officials in charge of public procurement do not conduct a detailed and essential analysis of the market.

Another significant problem is the frequent appointment of the same commission members for different types of public procurement, including specialized ones, which could affect the objectivity and quality of the decision-making process. In addition, there is no person responsible for monitoring the contract’s execution, which makes it difficult to monitor and ensure the quality of execution. Also observed was the unusual practice of paying advances without appropriate contractual regulations and non-compliance with

contractual conditions regarding the provision of promissory notes for good performance. All this indicates the need for a serious review and improvement of the public procurement process in the organization to ensure transparency, efficiency, and compliance with legal and contractual obligations.

For the audited subjects, a particularly problematic aspect of official trips in the country and abroad is the simultaneous covering of full board expenses during the stay on an official trip and the payment of per diems, which is against the law. Furthermore, there are irregularities in the opening of official orders, the lack of order signatures, their retroactive filing, and the lack of internal acts that would regulate the procedure of official trips in the country and abroad.

As far as representation expenses are concerned, non-compliance with its internal regulations was observed. These regulations provide for the mandatory preparation of reports on the expenditure of representation funds, which were previously the subject of the public procurement procedure. The subjects of the audit did not have any accompanying reports on the spending of the representation funds, and the funds were properly paid.

Regarding safety and health at work, at one subject of the audit, it was observed that the Act on Risk Assessment did not comply with the professional evaluation of the occupational medicine service and that the forms concerning this matter were not filed at all.

In the field of fire protection, it was determined that the specific subject of the audit does not have the necessary decision of the competent Ministry regarding the categorization of the facility, which is necessary in accordance with the Fire Protection Law.

The internal audit's findings regarding the use of official cars indicate numerous irregularities in a large number of audit subjects. It was observed with a large number of audit subjects the use of an official car after the end of the official journey and their driving and retention at the residences of the users of official orders. The inconsistency of the GPS device and the kilometers traveled also shows a significant discrepancy in some audit subjects and higher fuel consumption than usual.

Among audit subjects, the non-up-to-date management of the charge bases, i.e., the return of vehicles, and the lack of complete internal regulations on which jobs require monthly and 24-hour-a-day car use, leads to many employees giving themselves the right to demand and retain official cars.

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INTERNA REVIZIJA KAO JEDAN OD KLJUČNIH FAKTORA ODGOVORNOSTI ZAPOSLENIH U JAVNOJ UPRAVI

APSTRAKT: Interna revizija je jedan od važnih mehanizama dobrog upravljanja, koji doprinosi pojačanoj odgovornosti, a revizori su specifični čuvari zakonitog i pravilnog poslovanja organizacije. Cilj uspostavljanja interne revizije jeste unapređenje efikasnosti i delotvornosti rada organizacije. U radu su prikazani rezultati istraživanja najčešćih nepravilnosti u radu internog revizora u javnom sektoru. Cilj rada je nastojanje da se putem identifikovanja najčešćih vidova ispoljavanja nepravilnosti u radu internog revizora u javnom sektoru, ukaže na značaj uspostavljanja interne revizije u javnoj upravi, kao jednog od ključnih faktora odgovornosti i pravilnog poslovanja organizacije.

Ključne reči: *dobro upravljanje, odgovornost, interna revizija.*

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