

TENDENCIES IN PUBLIC AUDIT. IMPACT ON PUBLIC MANAGEMENT AND CITIZENS' LIVES

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Abstract

This paper aims to analyze the main tendencies in the external public audit activity carried out by the supreme audit institutions, in the light of the latest developments at the international level, from a post-pandemic perspective.

The article also examines new approaches in external public audit, which could have a positive impact on both the supreme audit institutions, from the perspective of their specific activity, and on the management of the public sector, having a direct influence on the lives of citizens.

Keywords: INTOSAI, supreme audit institutions, public management, COVID 19

JEL Classification: H12, H57, M4

Introduction

The COVID 19 pandemic has generated a series of changes at the level of contemporary society, which have had an impact not only on the way of organization and operation of some entities from the public or private sector, but also in terms of their involvement in managing the effects of this crisis.

The Supreme Audit Institutions (generally called SAI – Supreme Audit Institutions), as an important part of the institutional architecture of the states, have played an extremely important role in managing the effects of the COVID 19 pandemic, through the external public audit activity carried out on the public resources used by states in combating the crisis generated by the infection with the novel coronavirus, but also through guidance activities, where the regulatory framework related to their organization and operation allowed this, a fact that had an impact on public sector management.

1. The importance of supreme audit institutions in contemporary society

The importance of the supreme audit institutions in contemporary society is undeniable. This fact has been recognized by important international actors, such as the United Nations Organization that issued several resolutions (UN Resolution 9/3/2021, UN Resolution A/RES/ 66/209, UN Resolution A/RES/69/228) which aimed to emphasize the role of the supreme audit institutions in promoting the efficiency, responsibility, effectiveness and transparency of the public administration, but also in terms of strengthening the collaboration between the supreme audit institutions and anti-corruption bodies in order to prevent and combat corruption more effectively.

The specific activity of the supreme audit institutions is represented by external public audit, which is mainly carried out in the form of 3 types of audit: financial audit, compliance audit (control) and performance audit. Depending on the supreme audit institution, other types of audit are also performed, such as IT systems audit. Also, where the regulatory framework regarding the organization and operation of supreme audit institutions allows, they can carry out guidance/advisory activities (Pleșa I.T., Stegăroiu I., 2019) for public sector institutions, with respect to international auditing standards (see Figure 1).

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Figure 1. The main activities carried out by the supreme audit institutions



Source: made by the author

The supreme audit institutions have come together in an international organization called INTOSAI (International Organization of the Supreme Audit Institutions - <https://www.intosai.org/>). This umbrella organization, autonomous, independent and apolitical, brings together 196 members (supreme audit institutions), 5 associate members and 2 affiliated members. This organization aims to promote cooperation between supreme audit institutions in order to achieve the exchange of experience and best practices, as well as the development of international external public audit standards that are used by the external public audit community.

INTOSAI International Auditing Standard – P 12 *The value and benefits of SAIs – making a difference in the lives of citizens*, as its title suggests, describes the value and benefits brought by these institutions to society as a whole, especially in terms of citizens, as tax payers (INTOSAI P-12 *The value and benefits of the supreme audit institutions – making a difference in the lives of citizens*, <https://www.issai.org/pronouncements/intosai-p-12-the-value-and-benefits-of-supreme-audit-institutions-making-a-difference-to-the-lives-of-citizens/>). This standard describes, through well-established principles, the main features that a supreme audit institution must have in order to make a real difference in the lives of the citizens of the country in which it operates, but also the need to be a model for the other institutions in the public sector in terms of the quality of the services offered and compliance with ethical principles.

2. General trends in external public auditing

The economic challenges stemming from the COVID 19 pandemic continue to persist, with a pessimistic outlook for the world economy estimating a 2.3% decline by 2024 compared to normal non-pandemic conditions (World Economic Forum, 2022).

The crisis generated by the COVID 19 pandemic has also materialized in a series of risks, which have become systemic in this context.

The World Economic Forum has identified a series of risks estimated for the next 10 years, based on a questionnaire presented in the *Report on global risks in the year 2022* (World Economic Forum, 2022). These risks are shown in Figure 2 below:

Figure 2. The worst global risks in the next 10 years



Sursa: made by the author, based on the information presented in WEF Report 2020

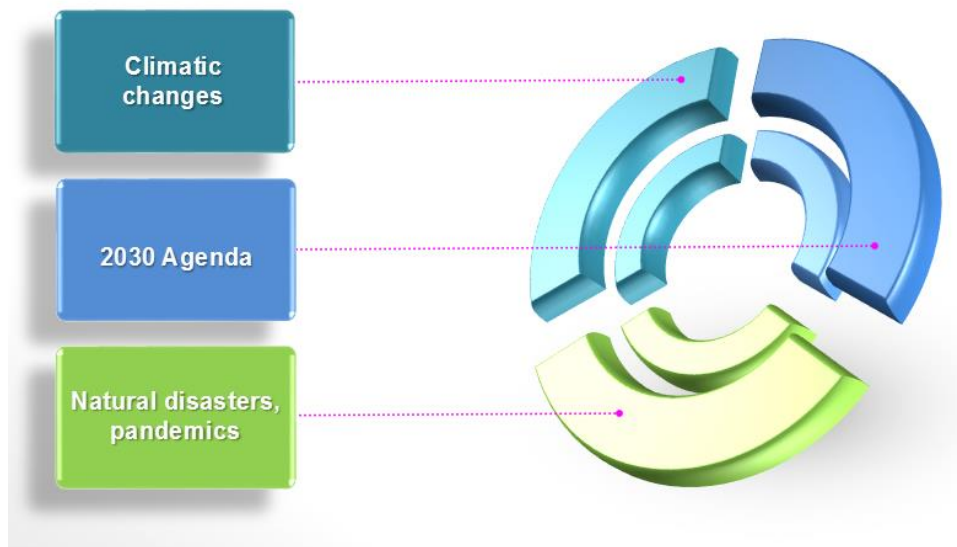
The risks presented in the Global Risks Report (2022) developed by the World Economic Forum based on the questionnaire launched on this occasion, which generated responses from 12,000 world leaders who identified critical near-term risks for the 124 countries from which they came from. These risks can influence decision-making at the national level and provide a means of comparison of national priorities in relation to global risks and their prospects.

These risks presented in the report refer to 5 areas: economy, environment, geopolitics, society and technology. It is interesting to note that the answers generated by the 12,000 leaders do not refer at all to the area of technology, although in the context of the COVID 19 pandemic, digitization has taken a vital place in adapting to the new reality, both for the public and private sectors.

Starting from these risks, we can see that they require the attention of supreme audit institutions. Practically, almost all the 5 areas where the risks were identified are subject to external public audit, less the area related to geopolitics. From the analysis of the specific external public audit activity, respectively of the public reports and the annual activity reports drawn up by the supreme audit institutions, this information can be easily observed.

Along with the evolution of contemporary society, the supreme audit institutions also evolved, in the sense that, in addition to the traditional role of "guardians of public finances", they managed to become extremely useful on other levels as well, being asked for their support and on other areas, as can be seen below (Figure 3):

Figure 3. New approaches in external public audit



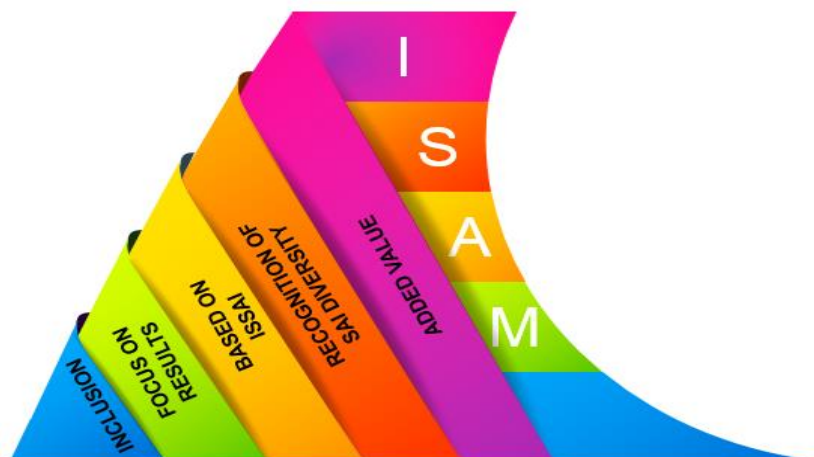
Source: made by the author

In September 2015, UN member states established the 2030 Agenda to end poverty, promote peace, distribute prosperity and protect the planet by 2030. As the first global agreement to establish a comprehensive action agenda with a universal vocation, the 2030 Agenda includes an ambitious set of 17 sustainable development goals and 169 related targets, which mobilize all countries and stakeholders towards the achievement of these goals and influence domestic policies (UN Resolution A/RES/70/1).

The Sustainable Development Goals, in particular, Goal 16 *Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels* underline the importance given to SAIs in monitoring the implementation of the Sustainable Development Goals, by protecting transparency and accountability.

On the other hand, this approach was one of the existing concerns at the INTOSAI level (INTOSAI-IDI, 2019), with the INTOSAI Development Initiative even developing an audit model in this sense (ISAM - [https://www.idi.no /elibrary/relevant-sais/auditing-sustainable-development-goals-programme/isam/1076-isam-about-idi-s-sdgs-audit-model/file](https://www.idi.no/elibrary/relevant-sais/auditing-sustainable-development-goals-programme/isam/1076-isam-about-idi-s-sdgs-audit-model/file)), to support supreme audit institutions in performing quality audits regarding sustainable development objectives. This model is based on five principles, shown in Figure 4 below:

Figure 4. IDI's ISAM model for auditing the implementation of sustainable development goals



Source: made by the author, based on ISAM

The ISAM model for the audit of sustainable development goals is developed as a performance audit of these goals, through which the achievement of the targets set at the national level by the states is sought. The principle of inclusion used by the ISAM model refers to the adaptation of this model to the different capacities of supreme audit institutions, depending on their degree of development, as well as the level of development of the performance audit.

The importance of supreme audit institutions has also proven to be crucial in difficult times for society, as was the case with the COVID 19 pandemic, by maintaining discipline in public financial management and ensuring transparency and accountability of governments (World Bank, 2020), in a climate characterized by uncertainty.

In the conditions of the COVID 19 pandemic, many of the activities that were easily carried out under normal conditions, required an adaptation to the new reality imposed by the COVID 19 pandemic. Thus, including the external public audit activity, required a series of adaptations, which to allow specific external public audit techniques to be carried out remotely, by electronic means. However, a number of tools specific to the audit activity, such as on-site inspection, have become almost impossible to achieve under the conditions of compliance with the social distancing measures imposed by the COVID 19 pandemic.

The international external public audit community reacted quickly to the crisis generated by the novel coronavirus pandemic through INTOSAI, with a database dedicated specifically to this purpose being created by the supreme audit institution from the Russian Federation, under whose leadership the organization was at that time (<https://intosairussia.org/scei/covid-19-database.html>). This database included examples of good practice used by SAIs, relevant audit reports, professional training tools, remote working, developing lessons learned to help prevent future pandemics. There was also information on relevant audit findings and methodologies on topics such as pandemic prevention, pandemic preparedness and response, previous audits related to disease outbreaks such as Ebola and SARS, health systems and spending related to COVID-19.

Climate change is another challenge facing humanity, combating it has become a global objective in order to protect life and ensure future sustainability. Through the Green Deal of December 2019, the European Commission set out to place the European Union at the forefront of the fight against climate change, with the aim of making Europe a pioneer in terms of climate neutrality by 2050, the European Court of Auditors increasing in this sense its role in the fight against climate change (Milionis et al., 2021).

Some authors believe that supreme audit institutions are vital in holding governments accountable for responding to climate change challenges and their financial impact (Cordery & Hay, 2021).

Moreover, through the activity carried out, we can say that the supreme audit institutions have a beneficial influence regarding the management of institutions in the public sector, fundamentally increasing its performance.

The special quality of the external public audit activity carried out by the supreme audit institutions, materialized through the audit reports drawn, led to the involvement of these institutions in the fundamental problems faced by contemporary society.

The general trend observed over time regarding the activity of the supreme audit institutions was that of their involvement in addressing the pressing issues facing society, through specific external public audit activities, but also through the guidance function, given the experience accumulated by these institutions over the time, taking into account the fact that they are perceived as independent and impartial institutions that can provide a real picture of the problems.

3. Proposals regarding new approaches in external public audit

Some authors considered that the risks associated with the COVID 19 pandemic have a systemic character and can be considered systemic risks, characterized by a high degree of uncertainty, novelty and increased interaction within the various systems (Kim et al., 2021).

While the research on the systemic nature of risks is not new, their approach has largely focused on financial systems and only more recently on areas such as climate change and natural disasters (Hagenlocher et. al, 2022).

The COVID 19 pandemic has generated a series of risks, which we can characterize as being of a systemic nature. We can even say that the COVID 19 pandemic represents a *black swan*, characterized by rarity, unpredictability and extreme impact (Taleb N., 2019).

A series of pre-pandemic issues have returned to the spotlight with the relaxing of pandemic-related measures, one of which is global warming, which we hear about it almost daily. In this context, the concept of *green swan* emerged risk (Bank for International Settlements, 2020), environmental events with highly disruptive potential from a financial point of view (*environmental black swans*), which could be behind the next systemic financial crisis. Basically, the events caused by global warming generated risks related to meteorological events that cause significant losses to people, firms and insurance companies, turning into risks to financial stability (Silva, L.A., 2020).

As for green swans, from the point of view of the approach regarding their impact on society, it is massive on humans (or even on civilization), the damage being almost irreversible in most cases. From the point of view of the severity of the effects, even without a full understanding of them, immediate action and good coordination are necessary in conditions of extreme uncertainty (Silva, L.A., 2020). In this situation, the involvement of supreme audit institutions in the audit of environmental expenditure is vital, the transparency of this expenditure and the responsibility of decision-makers on these issues can make a difference in the future for citizens.

In the context presented above, we believe that the external public audit activity carried out by the supreme audit institutions can evolve, in the sense of developing new types of audit, respectively new functions, that have a positive impact in terms of the management of public finances, as shown in Figure 5:

Figure 5. New approaches in post-pandemic external public audit



Source: made by the author

The systemic audit carried out by the supreme audit institutions can represent a very good solution, in order to identify the risks affecting various systems in the public sector. This type of audit is a comprehensive and detailed procedure for evaluating and clarifying how a system works (<https://www.lambent.com/how-systemic-audit-works/>). Starting from this type of audit, risks can be identified in different public sector systems, which can be addressed or even eliminated, as well as good practices, which can be successfully implemented at the level of public institutions.

From this perspective, another type of audit can be developed, **the strategic audit**, which can address certain specifically chosen areas, depending on the objectives set at the national level by each individual state (<https://intosairussia.org/chair-goals/strategic-audit.html>).

System audit results can be a valuable information base for the supreme audit institutions, which can successfully develop the guidance/advisory function for public sector entities, in compliance with international external public audit standards. Thus, by identifying systemic risks and deviations from legality with a systemic character, they can be fixed, by implementing the measures and recommendations issued by the supreme audit institutions by the management of the audited entities, a fact that leads to the improvement of **management performance in the public sector**, which has an impact on the **lives of citizens**.

With regard to the COVID 19 pandemic, we believe that the supreme audit institutions can perform both systemic and strategic audits. This type of approach could be successfully used, allowing supreme audit institutions to effectively contribute to the improvement of the management of public sector entities and the quality of life of citizens, the provisions of the international standard INTOSAI – P 12 being all the more evident in this context.

Conclusions

The role and importance of supreme audit institutions has been highlighted over the time, both by the results of their specific external public audit activity and by their involvement in the emerging problems that society has faced, as was the case with the crisis generated by the pandemic of COVID 19, this being the general trend today.

It is also increasingly evident that the climate change is a new threat looming on the horizon and the experience of supreme audit institutions will most likely speak for itself again, as was the case with the novel coronavirus pandemic.

Adaptation to the new reality imposed by social distancing and the rapid digitization of activities has led to the adaptation of audit techniques, as well as the identification of new approaches in external public audit, among which systemic audit and strategic audit stand out, each of which has a role and importance both in addressing the crises that may arise and also in terms of improving the management of public finances, with an impact on the quality of life of citizens.

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