



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



**INTERNAL AUDITING IN THE DEFENSE RESOURCE  
MANAGEMENT**

**GRECU Ciprian**

Ministry of National Defence, Romania

***Abstract:***

In this paper is presented the role of the internal auditing in the MoND, accentuating the idea that internal audit is not an oppressive activity, but a helping one, guiding entities in achieving their objectives. The first paragraphs present the concept of risks used in establishing the way the internal audit will be performed. The next chapter expresses the role of internal audit in the decision-making processes at the level of MoND. The last chapter focuses on evaluation of the performances of the entities in the MoND with the help of the internal public audit

*Key words: Internal Audit, internal managerial control, evaluating the quality*

**1. Introduction**

Against the background of the increasing complexity of tasks and missions of public entities, as well as the extension of the normative field, realities that determine the widespread promotion of the managerial principle of delegation of authority, as well as the finding of forms, methods, procedures and rules whose compliance to protect entities from the occurrence and manifestation of major risks, risk management and internal control tend to increasingly settle at the center of managers' responsibilities, concerns and activities.

The term “*audit*” comes from the Latin word “*auditus*” – auditing, which means “*listening*”, but auditing has been spoken of since the days of Assyrians, Egyptians, during the reign of Charles the Great or Edward I of England.

The formal definition of internal audit was adopted by the Institute of Internal Auditors (I.I.A.) in June 1999 and is as follows: “*Internal audit is an independent and objective activity that gives an organization assurance of the degree of control it has over its operations, guides it to improve its operations, and helps add value*”.

Internal audit helps this organization achieve its objectives by assessing, through a systematic and methodical approach, its risk management, control and management processes of the enterprise, making proposals to strengthen effectiveness.”

In the current sense, the use of the audit concept is accentuated during the 1929 economic crisis in the U.S. when, amid the economic recession, listed companies were required to pay significant



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



amounts of money to pay the performance of external auditors who performed the certification of accounts.

It was noted that the external audit expenses can be reduced by taking over all the preparatory work inside the organization, by its own Internal Audit Office, and to carry out the certification activity, the external audit offices will continue to be used. To distinguish between the auditors of the two types of cabinets, the former were appointed external auditors and the latter internal auditors.

After the economic crisis, internal auditors were retained and used further because they had gained extensive knowledge in the use of accounting methods, techniques and instruments.

The role and need of internal auditors has grown continuously and has been unanimously accepted, which is why they felt the need to organize and standardize their practical activities. Thus, in 1941, the I.I.A. was created in Orlando, Florida, USA which has been internationally recognized. Subsequently, Britain joined, and in 1951 Sweden, Norway, Denmark and other States. At present, over 90 national institutes of internal auditors and members from over 120 countries have been affiliated to this institute, following obtaining the quality of CIA – certified internal auditor, granted by I.I.A., based on professional examinations.

In 1992, Joseph J. Morris, president of the Institute of Internal Auditors in the UK, confirms Thurston’s prediction, but in more categorical terms: *“It is clear to those working in the field of internal audit that it has a vital role to play, helping management take in the reins of internal control.”*<sup>22</sup>

Former IFACI (French Institute of Internal Consultants Auditors) President Louis Vaurs stressed the rapid evolution of internal audit saying that *“the transformations introduced by most auditors were not really observed by our managers.”*

The internal audit function was established in England and France in the early 1960, being strongly marked by its origins of financial-accounting control.

Integrating itself into the overall effort to modernize financial management, both in the private and public sectors, the emergence of internal audit is recent.

The introduction of internal audit in the Romanian public sector began by elaborating the Romanian Government Ordinance (OGR) no. 119/1999 on internal audit and preventive financial

---

<sup>22</sup> Renard, J., *Theorie et pratique de l’audit interne*, Editions d’Organisation, Paris, France, 2002



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



control and was definitively established by the adoption of Law no. 672/2002 on internal public audit.

After completing the initial phase, the internal audit has now entered the stage of a reactivity management (i.e. the stage where auditors move from the practice of professionals faced with risks to the logical and scientific measurement of risk factors).

A major problem with the implementation of the internal audit function is that the planning, preparation, conduct and completion of missions should be based on the analysis of the risk associated with activities carried out within organizations, rather than on the flair and inspiration of managers, inspectors or auditors.

The cornerstone in achieving the objectives and increasing the performance of the internal audit is the risk analysis within the entities, complemented by the knowledge, understanding and accurate application of international auditing and internal control standards.

Organizations are in constant confrontation with the problem of improving performance in a challenging competitive environment through legal and efficient risk management and on this basis increasing the guarantees that their objectives will be met.

Any change in the normative or procedural framework of the organization, as well as any change in the material, financial and human resources, is constituted in phenomena with a strong impact, capable of permanently changing the risk map by the disappearance of some and the appearance of new ones or by changing the materiality threshold of the persistent ones.

Risk management makes change less risky, but it also favors it. Businesses and organizations are constantly confronted with improving their performance in an environment that brings them all the guarantees. Under these circumstances, the manager of the enterprise or the head of the public institution will normally ask questions about the good control over the functioning of the organization exercised by himself and his collaborators. In this respect, the internal audit function provides reasonable assurance that the operations carried out, the decisions taken are under control and that in this way they contribute to the achievement of the objectives of the organization.

Otherwise, the audit function must provide recommendations to remedy the situation. To do this, internal audit assesses the management and internal control system (i.e. the ability of organizations to effectively achieve the objectives assigned to them and to have good control over the inherent risks associated with their activities). Therefore, internal audit is a particularly useful function for leaders of organizations, regardless of their level of responsibility, which explains its



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



development over the past two decades, including extending the scope of action on effectiveness and performance beyond mere regularity.

Internal auditors and managers should be seen as partners and not as adversaries, with the same objectives, including the effectiveness of the management act and the achievement of the targets proposed. Managers should understand the auditor’s recommendations, and receive the help they receive to manage the risks that arise and evolve continuously, relative to their position within the entity.

In Romania, internal audit has been adopted as a fashionable term in the field of financial control, but over time it has succeeded in decanting the concepts of internal control and internal audit. Currently, there is a problem with understanding the internal control system, which is the subject of internal audit, encompasses all internal control activities carried out within an entity and the risks associated with them.

Internal audit is a profession that has been redefined over the years, in order to meet the ever-changing needs of entities. Initially focused on accounting issues, the objectives of the internal audit went toward detecting the main risks of the entities and assessing the performance of their management.

The profession of internal auditor is based on a flexible reference framework, recognized around the world, which adapts to the legislative and regulatory particularities of each country, respecting the specific rules governing the different sectors of activity and the culture of that organization.

The internal audit reference framework shall include:

- the concept of internal audit, which specifies some indispensable elements;
- internal audit carries out insurance and advisory missions;
- areas of responsibility are risk, internal control and management of the entity;
- the purpose of internal auditing is to add value to organizations.
- the code of ethics, which provides internal auditors with the principles and values that allow them to orient their professional practice according to the specific context;
- professional rules (standards) for internal audit practice, which guide its auditors to perform missions and manage activities;
- practical arrangements for application, which comment on and explain the rules (standards) and recommend best practices;



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



- support for professional development, built mainly from works and articles of doctrine, from documents of colloquies, conferences and seminars.

The knowledge and application of this reference framework provides organizations and regulatory bodies with assurance on the level of professionalism of internal auditors. Since 1999, in the Romanian economy, internal audit for public entities is introduced by law. *“This absolute premise has produced many debates of ideas, many reorganizations of control and its separation from audit. The shaping of internal audit required the definition of external audit as well.”*<sup>23</sup> Internal audit has become widespread in the public sector where *“all administrations are progressively adopting internal audit that must enable them to take a significant step toward effectiveness, security and quality”*<sup>24</sup>, be it military, hospitals, public finances, education, culture, environment, transport, local government, etc.

Internal audit covers all the functions of the organization because all of them are subject to audit exploration. The internal audit function itself must be subject to audit. Can we talk about an audit? There is no doubt that in carrying out an audit there is a necessary and possible fact both in terms of principles and even practice.

According to the provisions of Article 3 of the Law no. 672/2002 as amended and supplemented, the objectives of the internal public audit are:

- objective assurance and advice, aimed at improving the systems and activities of the public entity;
- supporting the achievement of the objectives of the public entity through a systematic and methodical approach, by which the effectiveness of the management system based on risk management, control and administration process is assessed and improved.
- The scope of internal public audit includes:
- financial activities or with financial implications carried out by the public entity from the moment of setting up commitments to the use of funds by final beneficiaries, including funds from external assistance;
- the establishment of public revenues, respectively the authorization and establishment of debt securities, as well as the facilities granted when collecting them;

---

<sup>23</sup> Ghiță, M., Sprânceană, M., *Auditul intern al instituțiilor publice*, Ed. Tribuna Economică, București, 2004, pag.22

<sup>24</sup> Renard, J., Op. cit., pag. 34



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



- administration of public property, as well as sale, pledge, concession or lease of goods in the private/public domain of the state or of administrative-territorial units;
- financial management and control systems, including accounting and related information systems.

It is undeniable that the audit, through its scope of activity and the objectives it has to achieve, acts in the benefit of the entity manager, presenting to him with objectivity, professionalism and independence, the risks associated with activities and processes related to the patrimony, providing him, through the recommendations formulated solutions to remedy the dysfunctions.

In Romania, the law provides for the following types of audit:

- system audit, which is an in-depth assessment of management and internal control systems, in order to determine whether they operate economically, effectively and efficiently, in order to identify deficiencies and make recommendations for their correction;
- performance audit, which examines whether the criteria set for the implementation of the objectives and tasks of the public entity are correct for the evaluation of the results and assesses whether the results are correct with the objectives;
- the audit of regularity or compliance, which is the examination of actions on financial effects on the account of public funds or public assets, in respect of compliance with the principles, procedural and methodological rules applicable to them.

The audit is no longer limited to examining the legality of the patrimonial operations carried out (regularity audit), but focuses in particular on carrying out in-depth assessments of the management and internal control systems, analyzing the economy, efficiency, effectiveness and timeliness of managerial decisions (system audit and performance).

The regular audit focuses its main effort on the legality of the economic and financial operations carried out, while the system audit checks the implementation and functioning of internal control levers.

Unlike regular audit, which is subject to clear Regulation, performance audit covers a much wider area and is much more open to judgment and interpretation. System and performance audit reports are much more varied and contain much more reasonable considerations, findings and arguments. If the regular audit is performed only with entities that have their own accounts, the system audit and performance audit is mandatory to be executed, as a priority, with public entities





*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



that do not have accounting records, but which, through their decisions, influence the performance of subordinated execution structures.

It is clear that although sometimes it represents a sum of confusion or even irritation, this new dimension of internal audit – system audit and performance – represents the highest stage of development of the internal public audit function. The existence of auditing does not change the freedom and competence of managers in decision making. Instead, observing decisions, comparing them, assessing the consequences of their application, and highlighting risks or inconsistencies are the attribute of system and performance audit.

System and performance audit is not interference without regulatory coverage or an overrun of internal audit powers. It focuses on the analysis of the system of leadership and internal control not because it has nothing better to do or because it has nothing else to do and then it seeks, but because practical reality and time (the only judge) they have demonstrated and established an axiomatic truth, namely that at the origin of any dysfunction are the wrong decisions doubled by the non-functioning of internal control mechanisms or their lack of reaction, as a consequence of the latter’s hierarchical dependence on the decision maker (manager).

## **2. Risk concept used in internal audit**

In practice, entities face a wide variety of risks, both internal and external, which cannot be taken into account in their entirety. It is particularly important for the commander to identify risks, classify them, rank them and manage them in the order of probability of occurrence and the imminent negative effect they can produce, being aware that it is impossible to address all risks.

Risk is the threat that an event or action affects an organization’s ability to achieve its goals. Possible risks must be identified on each objective, function, activity, program, process, operation, followed by a continuous monitoring of their evolution to identify those with the highest probability of occurrence and manifestation.

The internal auditor, from the start of the preparatory work of the audit mission until its completion, will be concerned with risks. In the literature there is a detailed typology of risk according to certain criteria. The main risk classification criteria are:

- the probability of occurrence;
- by their nature;



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



- according to the nature of the activities (operations) carried out within the entities;
- according to the characteristics of the entities;
- according to the classification established by the general rules on the exercise of the internal public audit activity.

After the probability of occurrence, the risks are:

- potential risks likely to occur unless an effective control system is put in place to prevent or mitigate them;
- possible risks, represented by those risks for which management has not adopted and promoted the most effective measures to counteract or mitigate their impact.
- By their nature, the risks are:
- strategic risks, resulting from wrong actions related to organization, resources, environment, it endowment, etc.;
- information risks, resulting from the adoption of unsafe or counterperformance systems for information processing and reporting;
- financial risks, related to the loss of financial resources or the accumulation of unacceptable debts or losses.

According to the nature of the activities (operations) carried out within the entities, the risks are legislative risks, financial risks, operating risks, commercial risks, legal risks, social risks, risk of image, environmental risks, risks related to information security and so on.

According to the specific entities, the risks are:

- general risks, regarding the organization and attitude of the management, the economic situation of the entity, etc.;
- risks related to the nature of specific activities;
- risks related to the design and operation of systems;
- risks related to the design and updating of procedures;

According to the classification established by the general rules on the exercise of the internal public audit activity, risks are classified as follows:

- organizational risks, such as: non-formalization of procedures; lack of precise responsibilities; insufficient organization of human resources; insufficient, unupdated documentation;





***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



- operational risks: failure to register all documents in the bookkeeping; inadequate archiving of supporting documents; lack of control over high-risk operations;
- financial risks: unsecured payments; failure to detect high financial risk operations;
- other risks, such as those generated by legislative, structural, managerial changes, etc.

Other risk classifications can be found in the literature, but in the practical work of organizations, the most important elements regarding risks remain those related to:

- the likelihood of risk;
- the level of impact, i.e. the severity of the consequences and their duration, if the risks would occur.

From the moment the two components are quantified, the risk map can be made based on which the management and internal auditors will track the risks whose probability of production is high and very high, and the negative impact of their manifestation is out of certain established and admitted tolerance limits. Risk identification and assessment is a component of the management process that must identify and analyze internal and external factors (endogenous and exogenous) that could affect the objectives of the entity.

Internal (endogenous) factors can be, for example, the nature of the entity's activities, the level of personnel qualification, major changes in organizational structure, individual and collective performance of employees.

External (exogenous) factors may be the result of changes in the economic, legislative or technological environment.

The risk assessment process must take into account all risks identified as associated with entity-specific operations, which is why it is specific to all hierarchical levels, in particular the top management of the entity. The results of the risk assessment process shall be reflected in the differentiation of measurable and non-measurable risks and in the selection of controllable risks. Through pre-established control activities, entity management identifies risks and analyzes their evolution at the entity level. The internal audit structure, being independent, resumes the analysis of the risks established by the management in order to assess and improve the internal control system. The results of this activity and any significant weakness discovered during the audit must be brought to the attention of the management.

Risk assessment at entity level is a primary concern of both internal auditors, which they carry out in accordance with their professional standards, and internal control, in order to increase added



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



value. Inherent risk is the risk that a material error will occur. Control risk is nothing more than the risk that the entity’s internal control system does not prevent or correct any errors. The risk of non-detection is the risk that an remaining material error will not be detected by the auditors, which is why it is also called audit risk. Inherent risks are the totality of risks that hover the entity and may be internal or external risks, measurable or immeasurable.

Control risks are related to the internal control environment and the implemented control activities that must be designed, perfected and adapted to enable the effective management of risks and to maintain them at a controllable and acceptable level.

Audit risks are residual risks that can still occur after risk monitoring by internal auditors. Audit risk is the possibility of making erroneous recommendations and conclusions, materially or not in conformity with the reality of the audited entity. Risk management requires the establishment of an efficient internal control system as a result of the interdependence of at least the following component subsystems:

- the subsystem of the control environment, namely: people, professional competence, integrity and their values;
- the subsystem for the identification, assessment and monitoring of the risk evolution that must establish the location of the risk within the entity;
- the subsystem of internal control activities to eliminate or mitigate the impact of risks.

Risk refers to the potential losses to which an entity is exposed. This uses, for example, the term ‘property risk’ for property losses, the term ‘business risk’ for business losses, ‘health risk’ for human health gains, ‘audit risk’ for operations of management and internal control systems that cannot be identified and assessed by specific means, etc.

Other risk-related expressions are frequently used in practice:

- realized risk – means the actual occurrence of the loss-generating event for an entity;
- potential risk – the loss-generating event has not yet occurred. When the loss-generating event occurs, then the potential risk turns into realized risk;
- current risk (diurnal, diffuse) – is the risk associated with human activities, characterized by a probability of occurrence high enough to require analysis and is easy to determine. Usually, these risks are studied statistically, being spread over time and space (diffuse in nature) and are proportional to the number of population. The risk of scrap production in the production process is an example of diffuse risk;



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



- special risk – is a risk that is generally characterized by a low probability of occurrence but with a major negative or catastrophic impact. As a rule, these risks are studied deterministically for each case.

The perception of risk differs from individual to individual and from society to society, and is nothing more than a measure of the degree to which each individual and each type of society is prepared to do so. Because it has a strong psychological and emotional underlay, the perception of risk depends mainly on the way it is publicized, as well as on educational, moral, psychosocial, religious, cultural, and cultural factors. etc.

The general rule shows that both at the individual and societal level, it is accepted that wherever and whenever risk can exist. People refuse to understand single but serious risks and are more tolerant of less serious risks, but more frequent, even under the same consequences. Risk management is a complex scientific approach to pure risks that uses material, financial and human resources to achieve the objectives of reducing exposure to losses. Risk identification is the first and most important phase of the risk management process, which consists of identifying potential hazards that exist within the entity. During this stage, a modeling of the technical, organizational and managerial system of the verified entity is carried out in order to determine and highlight the essential aspects of the entity regarded as a system (endogenous risk factors), as well as to specify the influence of exogenous risk factors on the entity.

The purpose of hazard identification is to detect, as far as possible, all existing risk factors. The advantage of identifying risk factors is reflected both in creating the right conditions for their treatment and analysis in an efficient way because they are known, and in establishing latent risks. Risk identification is a systematic and continuous process, given that risk factors change over time. The general rules for the implementation of the internal public audit establish a risk assessment methodology, which involves the following phases:

- identification of auditable operations;
- identifying the threats, the inherent risks associated with auditable operations;
- establishing the criteria(s) for risk analysis and their appreciation levels;
- establishing the level of risk based on assessment criteria;
- determination of the total risk score;
- the classification of operations into three main categories: operations with associated risks of high, medium or low level;



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



- the ranking of operations that have associated risks of medium and high level, in descending order of risk scores;
- elaborating the topic in detail of selected auditable objects.

It is important to note that the risk factors are not independent and the losses in situations of risk are often consequences of interdependence between them.

Internal risk factors are associated with the activities and operations carried out within the entity and mainly express the shortcomings with which the entity's subsystems are designed, performed and operated by users. They may in some cases lead to poor performance of the system (entity) as a whole.

External environmental risk factors (temperature, humidity, rain, snow, frost, solar radiation, tectonic manifestations, etc.) have no human determination, while man-caused external factors act in all phases of the existence of the entity regarded as a system, summing up all human errors that occur in the activities of designing and exploiting the resources of the entity.

The second phase of the risk management process, risk analysis, begins with the development of possible scenarios of loss occurrence by previously identified risk factors. The types of losses that will be assessed must also be clearly defined.

The main objectives of this phase are to quantify the probability of occurrence and the amount of losses caused by risk factors, which are often difficult to achieve. The difficulty lies in the lack or insufficiency of the availability of reliable data from the entity's history and the large number of unknown variables that fall within the equation of probability calculation.

It is particularly important to make the absolutely necessary distinction, in risk assessments, between the risk for the situation or the risk for the subjects.

The criteria used to measure the likelihood of risk are:

- the vulnerability of the entity;
- appreciation of the financial impact;
- appreciation of internal control.

The likelihood of risk varies from impossibility to certainty and is expressed on a three-level scale of values:

- low probability;
- average probability;
- high probability



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



In order to assess the vulnerability of the entity, a number of factors affecting the field are examined, such as: Human resources, complexity of operations processing and existing technical means. Vulnerability is expressed on three levels: Low, medium and high. The financial impact is also expressed on three levels: Weak, medium and important.

The integration of internal audit into risk assessment is a necessity that arises from the reality of the moment characterized by the fact that modern and rational management of entities is not possible outside the identification, evaluation and management of risks associated with the operations and activities carried out. The management's response to the problem of risk management is mirrored by the internal control system whose effectiveness determines the managerial performance and the degree of achievement of the entity's objectives.

As the highest form of internal control, internal audit meets the expectations of managers by integrating into the complex process of identification, analysis and risk assessment, thus contributing to the permanent update of the risk map of the organization where it operates and proposing, on this basis, that the internal audit will be carried out by the management. solutions to increase the effectiveness of the internal control system.

The importance of risk management arises from the responsibility of management to design and implement an internal control system that carries out the legal and efficient management of risks associated with activities within the entity. Internal audit is intended to provide assurance to the management of the entity about the functionality of the internal control system and the quality of risk management. This means that the internal audit should convince the commanders of the usefulness and necessity of implementing the proposed recommendations and solutions, maintaining a permanent equidistance with respect to any interest groups

### **3. The Role of Internal Audit in the Decision-Making Process at the Level of MoND**

The scope of the internal public audit includes all the activities carried out within the MoND, as presented in the following figure.

In addition to its contribution to improving risk management and increasing the performance of the entity's activities mentioned in the previous chapter, the internal auditor examines and



**The 18<sup>th</sup> International Scientific Conference  
“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**

**Braşov, November 9th-10th 2023**



evaluates the effectiveness of the entity’s internal control system, its adequacy to the needs of the institution and the quality of tasks performed by existing staff.

In order to achieve these objectives, the public internal audit exercises the following functions established by the Directive on internal audit responsibilities, issued by the I.I.A.:

verifying the reliability and integrity of the financial and operational information carried out within the entity and of the means used to identify, quantify, classify and report this information;

checking the systems implemented in the institution to ensure that policies, rules and procedures, legal and contractual provisions that could have a significant impact on the achievement of objectives, are observed and applied exactly;

- verification of the measures and means of protection of the assets as well as their existence, if this is required;
- evaluating the economy and efficiency of resource use;
- verifying the concordance between the results obtained following the performance of the operations or programs with the goals set by the entity as well as whether the approved plans for carrying out the respective operations and programs have been observed.

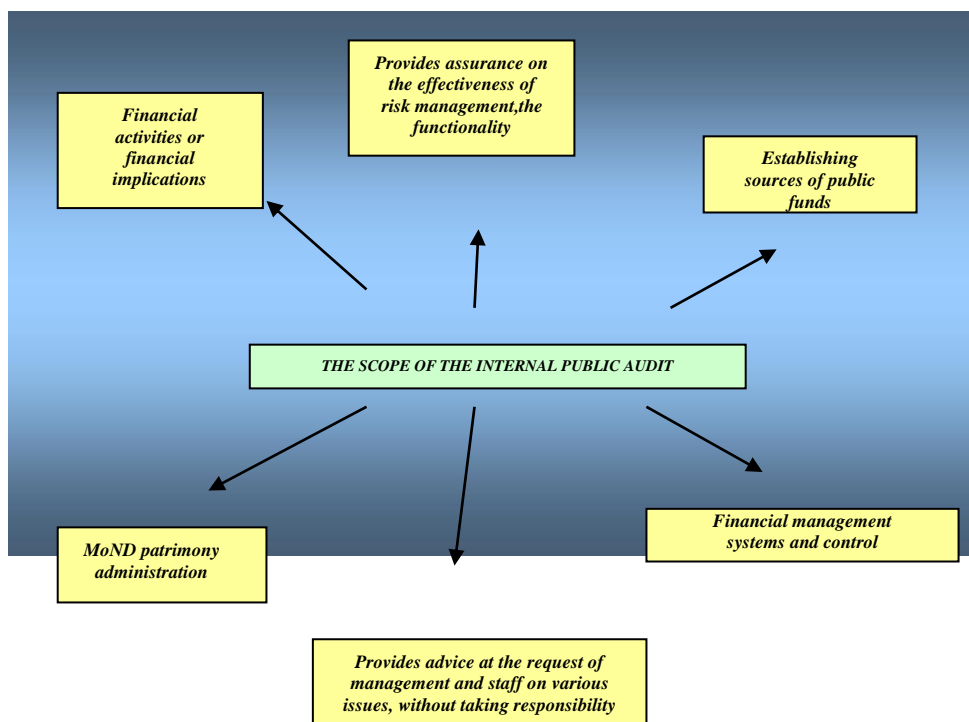


Figure 1. Scope of Action of the Internal Public Audit





***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



In the exercise of these functions it is necessary to know in detail the specifics of the entity by the team of internal auditors because for the collection, interpretation of audit evidence and drawing conclusions, auditors must use corresponding to the activities of the entity. Also, the internal auditors must have direct independence of action and expression of opinions, meaning that the internal audit department will be directly subordinated to the management. The manager will determine the areas of audit based on managerial decisions and specific reporting needs.

The area of applicability of an audit mission is still a major concern of the auditor today, its establishment must be done taking into account the laws and legal regulations in force. Although the internal auditors issue an assurance that the entity's objectives will be met, they are no guarantors that provide absolute assurance that the existing accounting information financial statements are correct. However, they assume an important responsibility to inform users that the financial statements are credible or not.

If the auditors conclude that the financial statements are not accurate or are unable to draw appropriate conclusions, then they are fully responsible for not presenting this situation to the interested parties, through the audit mission report.

The internal audit function is especially useful for the management of the entity, offering it assistance and advice for decision making, based on the experience and knowledge gained during the verifications and evaluation of the activities subject to audit. At the same time, through the opinions, conclusions and recommendations given to the management, the internal audit contributes to the adoption and improvement of their decisions. I also believe that better communication between management and internal audit can lead to an increase in the efficiency of the decisions taken. It is unanimously recognized that the introduction of internal public audit is a decisive step in the evolution of organizations, an important step in the introduction and development of efficient management in MoND, regardless of their object of activity.

The contribution of the audit consists in offering the entity's manager an objective and complete opinion regarding: the level of performance reached, the risks that threaten the achievement of the objectives, and the way of using the entity's resources. For the auditors opinion to be objective, they must be independent in action and expression, have autonomy that allows them to design hypotheses and make recommendations. By highlighting the risks that threaten the achievement of the entity's objectives, the internal audit contributes to the development of a modern, predictive and well-founded management.



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



The public internal audit should not be confused with the internal control function of the structure of which it is part, it is not a more “sophisticated” form of strengthening control as it is often misunderstood, but it is a managerial advisory function.

The concept of audit-advice should be used as often as possible to eliminate confusion with the notion of audit-control, even if the two notions are not incompatible. The audit, by examining the efficiency and effectiveness of the entity’s actions, adds value to the control and a rigorous control facilitates the auditor’s work. This addition of the value brought by the internal audit can be seen from two directions that explain and justify the foreseeable evolution:

- *the first direction* is the one given by the increase in complexity of the management of the entities that forces their managers to appeal to the internal auditor the more difficult or novel situations in order to integrate them in the entity. In this situation, the internal auditor is only a consultant of the manager who assumes the established solutions;
- *the second direction* refers to the advisory role that develops together with the pedagogical role of the internal audit, role given by its contribution to the training of specialists within the entity and by the participation in the implementation of the internal control.

Therefore, the internal audit, through the help given to the leaders of the organizations regarding the administration of the activities, represents also a function of assistance. The manager of the entity is assisted by the internal audit to solve the problems related to the adopted decisions, in order to obtain a better control over them.

The internal auditor is increasingly adopting the profile of a counselor, of a consultant we can call spontaneously, of a specialist. In other words, the internal auditor is not forced to give a result, he advises, assists, recommends but does not decide. Through his actions, based on reference norms that give him authority, the internal auditor helps to improve control, to improve performance and implicitly to achieve the objectives of the entity.

The internal audit advisory function is also recognized internationally through the adoption of the Professional Rules of Internal Audit in which numerous references are made to the advisory missions undertaken by internal auditors. The counseling activity is organized and carried out as follows:

- *formalized advisory missions* that are the subject of a separate section of the annual internal audit plan, have a formalized character and are carried out through systematic and methodical approaches



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



- *informal advisory missions* are carried out by participating in various standing committees, or on fixed-term projects, in one-off meetings or current exchanges of information to be carried out according to their specific procedures;
- *counseling missions for exceptional situations* take place by participating in teams specially set up to resume the activity imposed by force majeure or certain exceptional events to be carried out according to their specific procedures.

Concluding, in the decision-making processes that take place in MoND, managers substantiate their decisions, based on the information they have and after consulting with internal and external specialists who have a good command of the field of activity specific to the entity. Their specialists should include internal auditors who have in-depth knowledge of all activities within the entity, as by the nature of their function, using specific techniques and methods, they examine and evaluate both the adequacy and effectiveness of the internal control system. and the quality of the activities carried out in the entity, thus enriching their knowledge and experience in the field.

At the same time, auditors assess the degree of risk that may affect the achievement of objectives if certain decisions are made and determine the level of risk that the entity is prepared to accept.

Unfortunately, commanders from MoND view audit more as a form of control and less as a counseling function or as a valuable resource for achieving managerial performance. There is still, an inertia in ensuring and functioning the internal audit as a result of perpetuating the confusion between control and internal audit but also the erroneous perception of management about the purpose of audit missions. But until the commanders are aware of the contribution that internal audit can have in strengthening the decision-making system and managerial control, as well as in increasing managerial performance and quality of missions assigned, public internal audit will not be able to play its role of specialist, of advisor to whom he tends.

Following the analysis of the importance of financial-accounting management in terms of exercising its functions, respectively: forecasting function, organizing function, coordination function, training and control-evaluation function we can appreciate that it constantly guides the entity in order to achieve superior performance by anticipating the ways of carrying out the economic processes in the unit, based on the obtained results and the accumulated experiences.

Each of the five functions of the financial-accounting management contributes to the improvement of the performance of the financial-accounting activity of the entity and practically an added value of the management action of this activity. At the substantiation of the decisions, the commanders are



**The 18<sup>th</sup> International Scientific Conference  
“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**

**Braşov, November 9th-10th 2023**



based both on their own experience, knowledge and information in the field as well as on the consultations with the specialists within the institution, sometimes resorting to consultants from the external environment. In the decision-making processes that take place in MoND, commanders base their decisions, based on the information they have and after consulting with internal and external specialists who have a good command of the field of activity specific to the entity.

In my opinion, based on the internal audit, I analyze the general model of a decision problem in conditions of uncertainty and risk, in which the risk is of a financial nature.

The decision model in financial risk conditions has the following six components:

- identification of objectives;
- determining the possible actions;
- identification of nature states;
- establishing possible results;
- measuring the value of risk;
- choosing the optimal action.

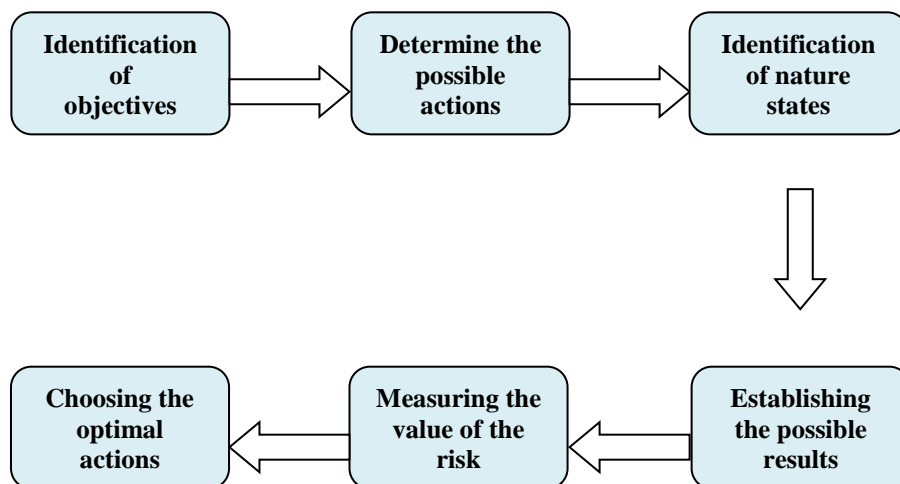


Figure 2 The General Scheme of a Financial Decision Problem

*Identifying the objectives:* an objective (target) that the decision maker hopes to achieve, by maximizing the profit or the current value of the cash flow. The calculation of the objective means,



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



in some situations, the determination of an objective function, which will be used to evaluate the possible actions and as a basis the choice of a better alternative.

*Determining possible actions:* searching for possible alternative actions to achieve the goal.

*Identifying the states of nature:* the problems identified by the financial decisions are defined in situations of uncertainty, being necessary to take into account all the uncontrollable factors that cannot be kept under control by the decision maker and that could appear for each possible action identified.

*Establishing possible results:* the different possible combinations between the actions and the states of nature, result in a set of possible results. The results are conditioned by certain actions and a certain state of nature.

*Measuring the value of risk:* it is a measure of loss (or utility) for each possible outcome, depending on the decision maker's goals. The loss in financial decision models is monetary in nature.

*Choosing the optimal action:* it is an action of reaching the decision-maker's objective, in conditions of minimal loss.

#### **4. Evaluation of the Performances of the Entities of the MoND with the Help of the Internal Public Audit**

For a structure of the nature of the MoND, its general and specific objectives are of utmost importance for the knowledge and evaluation of the performances of the entities that make up this ministry.

General objectives compete in the fulfillment of the ministry's mission and are stipulated in the law of its organization and functioning or in the normative acts and the specific planning documents.

Specific objectives are the objectives resulted by deriving from the general objectives and contribute to the achievement of the corresponding general objective. These are customized by each commander or chief of military structure, in accordance with the activity and duties of each structure and are incorporated in the plan with their main activities or in other appropriate planning documents.

The hypotheses or premises are logical constructions between variables, based on complete information from the quantitative and qualitative point of view, which highlight the possible changes



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



in the internal or external environment of the components of the ministry. The objectives are configured in such way, so that they meet the S.M.A.R.T. requirements.

The general and specific objectives are required to be set in such a way that their completion can be tracked and verified with measurable performance indicators. The measurement of performance is generally oriented either to the results of the activity (out- put) or to the impact of the program (out-come) in the long term.

The types of performance indicators are characterized by the following parameters:

- *Quantity* is an indicator of what the activity / program will actually produce;
- *Quality* measures the quality of the results produced in the military structures;
- *Duration* depends on the nature of the result, being very useful when the time factor is a very important parameter in the course of the activity or program;
- *Efficiency* is a measure of contributions, such as cost per unit of output;
- *Effectiveness* is an indicator of the extent to which a program has achieved its objectives.

In the process of selecting performance indicators, the following aspects must be taken into account:

- correlation of indicators - the objectives set to be as clear as possible;
- specifying the reference values among the most current historical values of an indicator;
- regular activities are required to collect information on relevant indicators;
- setting the target values for each quarter of the current financial year.

When introducing and developing systems of the nature of internal managerial control within entities of the MoND, the following principles must be respected:

- the principle of legality;
- the principle of adaptability;
- the principle of completeness;
- the principle of uniformity;
- the principle of finality;
- the principle of efficiency;
- the principle of effectiveness;
- the principle of economics.





***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21st CENTURY”***  
**Braşov, November 9th-10th 2023**



For monitoring, coordination and methodological guidance of the implementation and improvement of the internal management control system, the following commissions are set up and functioning, according to the hierarchical level, in the MoND:

- at the level of the MoND – the monitoring commission of the ministry;
- at the level of the organizational components of the ministry, where commanders or heads fulfill the function of authorizing officers - the monitoring commissions;

In the structures of the ministry whose commanders or chiefs do not have the quality of authorizing officers – a person responsible for monitoring the implementation of the internal management control standards.

The monitoring commission of the MoND has the following composition:

- chairman – the deputy secretary general of the MoND or the deputy general secretary of this ministry;
- members – the director of the General Staff of the Defense and the deputies of the departments and directions of the ministry.

Internal public audit has an extremely important role on the line of evaluating in an independent and objective manner the internal management control system of the components of the MoND.

In order to substantiate the Report on the internal management control system at the end of each year, according to the annex no. 4.3 of the instruction that is part of the Order of the Secretary General of the Government no. 600/2018, the following responsibilities are set at the level of the ministry:

The entities audited by the specific structures (internal or external audit) in the field of the managerial internal control transmit to the General Secretariat, within 30 days from the conclusion of the mission, the main recommendations and measures arranged in order to implement them;

The IAD sends, in its turn, to the General Secretariat a summary of the main findings in the field of managerial internal control and elements considered relevant in the program and activity of the audit structure, until January 25 of the following year, for the previous year.

From the ones presented by us from this normative act we can draw some conclusions regarding this type of control in the army:

- it clearly establishes the organizational structures meant to monitor the internal managerial control in the army;



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



- it rigorously establishes the general and specific objectives of this type of control according to the requirements of type S.M.A.R.T.;
- it specifies precisely the indicators for measuring the performances of the entities subject to internal control and why particular aspects must be taken into account;
- it stipulates the principles that must be respected in the process of implementation and development of this activity in all military structures.

Regarding the evaluation of the internal management control system, in order to increase the performances of the entities of the MoND, we consider that the activity of internal public audit must take into account at least the following aspects:

- begin any internal public audit mission, starting from the requirements of the internal/managerial control standards and the international internal audit standards;
- provide the necessary resources (human, financial, time, etc.) for each audit team descending into internal public audit missions to be carried out in entities of the MoND, for the full completion and with future favorable effects for those audited;
- assure judicious establishment of each internal audit mission to the entities that will be audited in the ministry, after a very rigorous assessment of the risks that may arise as a result of shortcomings in the internal/managerial control activity;
- establish with high realism and wisdom the recommendations after the completion of each audit mission and then, tenaciously pursue the implementation of the recommendations agreed between the parties (the audit team and the audited entity);

## **5. Conclusions**

The internal managerial control represents the set of control forms exercised at the level of the public entity, including the internal audit, established by the management in accordance with its objectives and legal regulations, in order to ensure the administration of funds economically, efficiently and effectively.

It also includes the organizational structures, methods and procedures, and the control system is organized within the MoND, based on the following principles: the principle of legality; the principle of adaptability; the principle of integrity; the principle of uniformity; the principle of finality; the principle of efficiency; the principle of effectiveness; the principle of economy.



*The 18<sup>th</sup> International Scientific Conference*  
**“DEFENSE RESOURCES MANAGEMENT  
IN THE 21<sup>st</sup> CENTURY”**  
**Braşov, November 9th-10th 2023**



In the process of implementing the standards of internal managerial control there are two obligatory stages: the stage of self-evaluation, performed by commanders/heads who have the quality of authorizing officers; the stage of evaluation, performed by the internal public audit structure of the ministry. For the self-evaluation of the internal managerial control system, the structures of the ministry whose commanders/heads have the quality of authorizing officers mainly go through the following stages: convening the monitoring commission in order to self-evaluate the own internal managerial control system; completion of the Self-assessment Questionnaire of the implementation stage of the internal managerial control standards; elaboration of the Synthetic Situation of the self-evaluation results and assessment of the degree of conformity of the own internal managerial control system with the internal managerial control standards, in relation to the number of implemented standards;

The entire management system and the two auxiliary components (internal managerial control and evaluation of this control by internal audit) at the level of all entities in the MoND cover a whole set of documents and responsibilities: strategies; strategic plans; procedures; manuals; internal regulations; structural projects; records; rules; appointments of persons with certain attributions; establishment and revision of management documents; quantitative and qualitative performance indicators; controls; measures/plans, etc.

The internal public audit represents, for the military field, the functional-independent and objective activity, of insurance and counseling, designed to add value and to improve the activities carried out within the MoND. Public internal audit helps the ministry leadership, audited military structures and units to achieve their objectives through a systematic and methodical approach; it evaluates and improves the efficiency and effectiveness of risk management, control and governance processes.

### **References**

- [1] Ghiță, M., Sprânceană, M., *Auditul intern al instituțiilor publice*, Ed. Tribuna Economică, București, 2004, pag.22
- [2] Grecu, C., *Auditul activităților logistice*, Academia Tehnică Militară, 2019
- [3] Renard, J., *Theorie et pratique de l'audit interne*, Editions d'Organisation, Paris, France, 2002
- [4] Constantinescu, Maria, *Sistemul de Planificare, Programare, Bugetare in contextul planificarii apararii si al managementului resurselor de aparare*, 2013, Editura UNAp, Bucuresti



***The 18<sup>th</sup> International Scientific Conference***  
***“DEFENSE RESOURCES MANAGEMENT***  
***IN THE 21<sup>st</sup> CENTURY”***  
**Braşov, November 9th-10th 2023**



- [5] Pickett K.H.S., The Internal Auditing Handbook, Second Edition, 2006
- [6] Sawyer L.B., Internal auditing, 5th Edition, The Institute of Internal Auditors, 2005
- [7] General Norms regarding the Conduct of Public Internal Audit Activity, sanctioned by GR no 1086/2013
- [8] Law no 346/2006 regarding the organization and functioning of the Ministry of National Defense, with further modifications and additions
- [9] Methodological Norms for Conducting the Public Internal Audit within the Ministry of National Defense, sanctioned by OMoND no M.67/2014, with further modifications and additions
- [10] Norme profesionale ale auditului intern, Normes Professionnelles de l’audit interne, IFACI, Paris, 2002, editat de MFP prin Programul UE - Phare, Dezvoltarea procedurilor de audit și control intern